OVERSIGHT OF VA HOME LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
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CONTENTS

OCTOBER 27, 1983

Page

Oversight of VA Home Loan Guaranty Program 1

STATEMENTS OF COMMITTEE MEMBERS

Chairman Shelby 1
Hon. Christopher Smith 2
Hon. Michael Bilirakis 8
Hon. Bill Richardson 12

WITNESSES

Edmiston, Stephen L., deputy national legislative director, Disabled American Veterans 21
Prepared statement of Mr. Edmiston 76
Mayo, Philip R., special assistant, Veterans of Foreign Wars of the United States 21
Prepared statement of Mr. Mayo 70
O'Toole, Robert M., director, Loan Guaranty Service, Veterans' Administration; accompanied by Mr. Raymond L. Brodie, assistant director for loan management, and Mr. James P. Kane, Assistant General Counsel 3
Prepared statement of Mr. O'Toole 29
Winters, Dan, president, Southern Guaranty Corp., on behalf of the National Manufactured Housing Finance Association; accomplished by Mr. Alan Schneeberg 18
Prepared statement of Mr. Winters 61
Wynn, Ronnie J., president, Colonial Mortgage Co., Montgomery, Ala., on behalf of the Mortgage Bankers Association; accompanied by Mr. Burton C. Wood, legislative counsel; and Mr. Charles H. Fritts, associate legislative counsel 13
Prepared statement of Mr. Wynn 44

MATERIAL SUBMITTED FOR THE RECORD

Statements:
The American Legion 84
Federal National Mortgage Association 85
National Association of Home Builders 87

OVERSIGHT OF VA HOME LOAN GUARANTY PROGRAM

THURSDAY, OCTOBER 27, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 334, Cannon House Office Building, Hon. Richard C. Shelby (chairman of the subcommittee) presiding.

Present: Representatives Shelby, Applegate, Mollohan, Richardson, Sundquist, and Bilirakis.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will come to order. I have a brief statement and then we will call up the people who will be testifying.

We meet this morning to review the Veterans' Administration home loan guaranty program. The committee continues to believe that the VA guaranteed home loan program is a most valuable program which enables many veterans to finance home purchases even though they may not have the resources to qualify for conventional loans. We think the program was well conceived and we are very proud of it basically.

At our hearing last April, VA witnesses indicated that employees were experiencing difficulty in managing workloads due to increased activity in new loan applications that were generated by a drop in interest rates. At the same time, foreclosures on properties were at an all-time high due to rampant unemployment in the country. This was further documented when we compiled the results of a questionnaire we sent to VA offices throughout the country. I am making the tabulated results of this a part of the hearing record.[1]

It is my understanding that the overall situation has improved with the VA and the subcommittee is looking forward to hearing how this has occurred.

The subcommittee is also very concerned about the status of the loan guaranty revolving fund. For many years, this fund has been solvent and self-generating, but it is currently in danger of being exhausted because of increasing foreclosure proceedings throughout the country. This is of great concern to me. The VA

[1] See p. 28.

guaranteed home loan program provides a necessary service and we must do all we can to keep it going to assure that veterans can continue to take advantage of this vital program.

Since vendee loan sales are continually necessary to finance program obligations, the committee contacted the VA a few months ago requesting specific information on the VA home loan guaranty program—in particular, on the amount of loans available for sale. I wish to include this material in the hearing record.[2]

Today we have five witnesses. Some prospective witnesses have submitted statements, or plan to shortly. Without objection, the hearing record will remain open for 5 days so that their testimony may be included in the hearing record.

I would also like to ask each of our witnesses this morning to follow the longstanding policy of the committee of limiting their oral remarks to 5 minutes so that the subcommittee members will have an opportunity to ask questions. Of course, you will have additional time for any comments. We will, of course, as always, include your entire written statement in the record from the beginning. I want to welcome all of you to the subcommittee.

Our first witness this morning is Mr. Robert O'Toole, Director of the VA Loan Guaranty Service. Bob, you might want to come on up to the table.

I want to now recognize the gentleman from Tennessee, Mr. Sundquist, for any remarks he wants to make.

Mr. SUNDQUIST. Thank you, Mr. Chairman. I don't have opening remarks, but the ranking minority member, Mr. Smith, does. I would ask they be made part of the record.

Mr. SHELBY. Without objection, they will be included and made part of the record.

[The statement of Hon. Christopher Smith follows:]

STATEMENT OF HON. CHRISTOPHER SMITH

The Veterans Administration Home Loan Program, along with other government and private sector housing markets, has come through an exceptionally difficult period—perhaps the worst in its forty year history.

The past few years have been hard on lenders and borrowers alike—particularly those borrowers burdened with depressed job markets and a declining money supply tied to soaring interest rates—a classic example of demand outstripping supply.

It is a tribute to the cooperative spirit between lending institutions and the VA's guaranty program that funds continued to flow to veteran borrowers, and that creative financial planning helped many disadvantaged veterans hold on to their homes.

Even so, a high foreclosure rate has had its effect both economically and emotionally on many VA home owners. In that light, this Subcommittee moved HR 2948 expeditiously and we hope it will continue through this Congress forthrightly to bring further relief to our veterans who are still smarting from the effects of a slow-to-rise employment market.

Mr. Chairman, despite the recovery, there are some indicators that are still lagging—one of these seems to be the VA's Revolving Fund—a principal source of guaranty money. I am concerned that the guaranty program may have gone to the well of direct loans too often for the good of the system.

As a result, the VA may find itself in a tightening spiral of excessive fund transfer, followed by a request for a Congressional appropriation to maintain solvency.

I look forward, therefore, to today's testimony, in the hope that the witnesses may shed some light on the future of the program and the options available to the VA

[2]See p. 35.

for replenishing the revolving fund without extracting a penalty on the direct loan supply.

Mr. Chairman, we all want the veteran to have an opportunity to own the home of his or her choice, and to be afforded some measure of protection against hard times; but we also have to protect the source of funds and assure security to the lenders who look to the government for reasonable recovery in the event of unmanageable default. The air of cooperation between the VA and the lending institutions is full of hope for a workable solution and I commend all of them for their candor and advice.

Mr. SHELBY. Mr. O'Toole.

STATEMENT OF ROBERT M. O'TOOLE, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION, ACCOMPANIED BY RAYMOND L. BRODIE, ASSISTANT DIRECTOR FOR LOAN MANAGEMENT; AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

Mr. O'TOOLE. Mr. Chairman and members of the subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans' Administration's housing program. I have with me today Raymond L. Brodie, assistant director for loan management, and James Kane, assistant general counsel.

Reflecting the recent improvements in the Nation's economy, Mr. Chairman, VA loan activity was sharply up during fiscal year 1983 compared to the previous fiscal year. During the fiscal year just ended, VA processed over 338,000 applications for guaranteed home loans, which was 189 percent more than were processed in fiscal year 1982. The Administrator actually guaranteed over 231,000 loans in fiscal 1983, almost 2½ times the number guaranteed in fiscal year 1982. In addition, VA issued more than 650,000 certificates of reasonable value reflecting more than a 120-percent increase over fiscal year 1982.

The increased loan activity coincided with a reduction in the maximum interest rates on VA guaranteed loans. This rate varied from 11½ percent to 13½ percent during fiscal 1983. This compares to rates varying from 13½ to 17½ percent during fiscal 1982.

While workloads remain heavy in our regional offices, Mr. Chairman, only five offices currently report significant out-of-line timeliness situations as of mid-October of this year.

Mr. Chairman, one of the reasons for the improvement in timely processing of VA loans is the increased use by lenders of the automatic loan closing authority. For instance, in August 1983, 40 percent of VA loans were closed by lenders on the automatic basis. This is nearly double the amount of automatic loans closed by lenders in previous years.

Workloads also continue very heavy in our property management activities, with over 21,000 properties acquired and over 18,000 properties sold by the VA during fiscal 1983. VA has continued for the remainder of the calendar year an interest rate reduction program in 14 field stations with large property inventories. This program has allowed sales of difficult-to-sell properties at lower interest rates than the standard vendee loan interest rate.

Mr. Chairman, despite our heavy workloads, VA has not altered its timeliness or quality performance standards. A minimum of 10 percent of approved prior approval loan applications are post-audited, and 10 percent of issued certificates of reasonable value are

field reviewed. Such field reviews or post audits are accomplished on a random selection basis. Every effort is being made to return all field operations to timely operations, and sufficient quality reviews are being performed to assure program integrity.

Mr. Chairman, you requested the VA discuss the status of the loan guaranty revolving fund. The balance in the loan guaranty revolving fund as of September 30, 1983, was $120 million. While this figure is an increase over the $74 million balance on September 30, 1982, it was necessary to transfer $300 million from the direct loan revolving fund to the loan guaranty revolving fund during fiscal 1983. To return capital to this fund, we also sold loans yielding $684 million to the revolving fund during 1983. While a substantial sum of money has been added to the loan guaranty revolving fund through either sale of assets or direct loan revolving fund transfers, the fund remains seriously depleted. An additional $100 million has been transferred this month from the direct loan fund and we expect to transfer another $100 million shortly.

The unobligated balance in the direct loan revolving fund has decreased from $367 million on September 30, 1982, to $223 million on September 30, 1983. To return capital to the direct loan fund, $101 million in direct loans were sold, returning $78.5 million to this fund during fiscal 1983.

Mr. Chairman, the problem with the funding of the loan guaranty revolving fund is primarily a result of continuing high interest rates and the high rate of loan defaults and loan foreclosures, notwithstanding our efforts to assist delinquent borrowers through supplemental servicing.

Although the holder of a GI loan has the primary responsibility for servicing loans in default, it is VA policy that no guaranteed loans should be foreclosed or otherwise terminated unless such action is justified. When the occasion warrants, the VA will provide financial counseling and intercede on the borrower's behalf with the holder to help arrange a repayment program.

Just last month we held a meeting at our central office with representatives of the 17 VA regional offices having the largest number of foreclosures. We emphasized to those in attendance the importance of doing everything possible for veteran borrowers in financial difficulty to help them to avoid foreclosure.

Although the number of defaults and claims was sizeable during fiscal year 1983, 85 percent of those loans reported as being in default were brought current. However, with an increasing number of foreclosures, we would expect to pay an increasing number of claims.

Should the high number of claim payments continue, it appears that an appropriation request may be necessary in the future to assure the continued solvency of the loan guaranty revolving fund. On the other hand, should the strong signs of economic recovery continue, we may well see a decrease in claims and thus an alleviation of our present funding difficulties.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions you or other members of the subcommittee may have.

[The statement of Robert O'Toole appears at p. 29.]

Mr. SHELBY. Thank you, Mr. O'Toole.

I have a number of questions so I will recognize myself first.

On page 3 of your statement you indicated that your agency sold property at an interest rate reduction on properties that were difficult to sell, and that this practice had increased sales at a rate of 87 percent of the properties acquired during fiscal year 1983 as compared to a 65-percent rate in fiscal year 1982. Was this a nationwide practice or simply a pilot program?

Mr. O'TOOLE. Well, Mr. Chairman, that's a program that we tried in 14 of our offices that had very high property inventories. Where we——

Mr. SHELBY. Were these areas where there was high rates of unemployment in the country?

Mr. O'TOOLE. Yes, sir, the results so far have been favorable, based on the data that we have so far. In those areas prior to the test, we were selling about 70 percent of the properties that we acquired. Since the test started, we have increased that to over 90 percent of the properties that we've acquired.

Mr. SHELBY. Are you going to expand it into other offices nationwide, or are you just going to wait on the number of properties you have?

Mr. O'TOOLE. Well, we're concerned about the size of that inventory. We're going to look at those——

Mr. SHELBY. Rightly so, right?

Mr. O'TOOLE. Yes, sir. And we're going to look at the results of that test to see if it's necessary to expand it to more areas or expand it on a nationwide basis.

Mr. SHELBY. On page 4 of your statement that you have submitted, you indicated that this month $100 million was transferred to the VA loan guaranty revolving fund from the direct loan revolving fund, and that you expect to transfer another $100 million shortly.

Will this, in addition to loan sales, be adequate to meet potential claims and property acquisition costs for fiscal year 1984, or do you anticipate additional appropriation requests out of the direct loan revolving fund?

Mr. O'TOOLE. Well, the transfer of funds from the direct loan revolving fund is something that has historically been used to fund the payment of claims and the acquisition of properties. I think it's too early at this point to tell whether it will be necessary to ask for an appropriation during fiscal 1984. It is something that we're looking at very closely.

If there is a recovery in the economy sufficient to show a decrease in the number of defaults, and claims, and an increase in property sales, then hopefully that won't be necessary.

Mr. SHELBY. At what point do you estimate that your resources will be completely depleted and you will request something like a supplemental appropriation out of general revenue funds from OMB?

Mr. O'TOOLE. Well, I think it's premature to estimate. Right now, if we continue the way we are, and if the defaults and claims continue the way they are now, and without an increase in property sales, we are probably looking at some time in fiscal 1985.

28-483 O - 84 - 2

Mr. SHELBY. How do you feel about placing the proceeds from the users' fee in the VA loan guaranty revolving fund? I think it would take legislation to do that.

Mr. O'TOOLE. I think it probably would. The policy of the administration is, as I understand it, for that fee to go into the general revenue account. Certainly, if that amount was placed in the revolving fund, it would reduce the need for an appropriation.

Mr. SHELBY. We would be keeping money that is generated here, in a sense, wouldn't we?

Mr. O'TOOLE. Yes, sir.

Mr. SHELBY. Do you have any numbers on how much money that would be?

Mr. O'TOOLE. In fiscal 1983 we collected a little over $80 million.

Mr. SHELBY. That's a lot of money.

There have been proposals, as you are well aware, that HUD no longer set an interest rate but, rather, that it be negotiated. What impact would this have on the Veterans' Administration if HUD had a negotiated rate and the Administrator continued to set the interest rate by law?

I know it's speculation, but you know we have to do this.

Mr. O'TOOLE. The establishment of the interest rate is something that we work very closely with the HUD people on. It is something that takes a very close working relationship with HUD.

If we had to do that by ourselves, it would be more difficult, primarily because we don't have the financial and economic analysis staff that HUD has. But I think we would be up to the challenge and would administer that rate——

Mr. SHELBY. I have had a lot of complaints in the last several years, and I've seen a lot of it, that at times the VA interest rate was unrealistic considering the market conditions—and I'm sure you have, too. How do you answer that?

Mr. O'TOOLE. Well, I think perhaps there have been occasions in the past years where the movement of the rate either up or down, has been slow and has not responded to market conditions. The reason for that is we're in a situation where we anticipate other forces having an effect on those long-term interest rates, but we have tried very hard recently to keep the rate consistent with what long-term mortgage rates should be.

Mr. SHELBY. Do you have an opinion on the Grace Report recommendation that VA discontinue acquiring homes at foreclosure sales? Are you familiar with the Grace Report?

Mr. O'TOOLE. Yes, I am. We have responded to the report by that Commission. Our information indicates that the procedure that we use in acquiring properties and reselling those houses is more cost beneficial than it would be if we only paid claims.

Mr. SHELBY. At least you've had a lot of experience in it.

Mr. O'TOOLE. Yes, sir.

Mr. SHELBY. The purpose of this oversight hearing—only 6 months since we had the last one--is to get everything in order so that we will be able to proceed next year with the necessary legislative initiatives. I feel that we must maintain a solvent loan guaranty program, and I am sure you do too, from your perspective.

Mr. O'Toole, how would you gauge the loan guaranty revolving fund, on a scale of 1 to 10? Do you feel confident about the home

loan program, or do you have doubts about it, and do you have any recommendations that we should consider legislatively?

Mr. O'TOOLE. Well, Mr. Chairman, I think the program is viable and it is healthy and, with the cooperation of this committee, it is going to continue to be that way. I think we're going through some very difficult times because of the high rate of foreclosures, defaults, and claim payments, but I am confident that the economy is going to recover to a point where we're going to be able to fund the program properly and it will continue as a strong housing program for veterans.

Mr. SHELBY. Have you, or someone in your office, compared the foreclosure of VA loans in Hawaii, the fees involved? It was recently brought to my attention that the average attorneys' fees for foreclosure was approximately $2,000, as opposed to, say, Pennsylvania, Alabama, or New Mexico where it ranges around $350. That seems way out of proportion to anything in the country.

I was wondering if HUD was experiencing the same thing.

Mr. O'TOOLE. Well, we haven't looked at it recently, Mr. Chairman. We certainly will be happy to take a look at those costs in Hawaii. As you know, the costs in Hawaii for a lot of things are higher than they are in the mainland.

[Subsequently the Veterans' Administration furnished the following information:]

FORECLOSURE COSTS

The average foreclosure costs for GI loans in Hawaii were compared with the costs incurred to foreclose loans in Pennsylvania, Alabama, and New Mexico. The average foreclosure costs for these four States are as follows:

Charge	Alabama	Pennsylvania	New Mexico	Hawaii
Attorneys' fee	$250	$350	$600–$700	$800–$1,500
Advertising	50	250	75.00	144
Recording fees	5		2.75	41
Complaint		100	42.75	
Title search		125	50.00	78
Service			25.00	
Master's fee		300	100.00	40
Tax search			35.00	
Commissioner's fee				2,000

The review discloses that the Commissioner's fee and attorneys' fees charged in Hawaii are the main reasons foreclosure costs far exceed those costs incurred in the other states under study. The Commissioner's fee is court-approved by the judge holding the foreclosure. Since VA only allows $350 for attorneys' fees in claims under guaranty, lenders must absorb costs exceeding $350 for such fees.

Mr. SHELBY. I would like you to look at those fees and all other foreclosure charges and compare them to other parts of the country. I would be interested in them myself. I might be wrong as to the information, but that's what we found out from the director there, I believe, and some of the people in Hawaii, that they were way out of line. In other words, the costs of foreclosing, the legal proceedings, and so forth. If that's true, that's a lot of money.

I want to recognize the gentleman from West Virginia. Do you have any questions?

Mr. MOLLOHAN. Mr. Chairman, thank you. It is good to be here and I appreciate this testimony. I don't have any questions at this time, thank you.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee, Mr. Sundquist.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. O'Toole, to what extent in your past experience and your records have foreclosures, when they have peaked out, been a lagging indicator, and what are you predicting now in terms of the market? Do you have any experience in that from past recessions?

Mr. O'TOOLE. There is a lag time. As I recall, we looked at the 1974 recession. What we have right now is a lot of activity on the origination side, a lot of veterans buying houses. At the same time, a lot of veterans are unable to pay for the houses that they have. Based on our past experience, it is going to take a couple of years for that to even out.

Mr. SUNDQUIST. A question on a little different subject, and that is in terms of we're going to be hearing testimony about manufactured homes today. What has been your reaction to the VA experience with manufactured homes, their quality, resale, those kinds of things?

Mr. O'TOOLE. I think we have seen an improvement in the quality of manufactured-housing construction and certainly in the cooperation that we have had from the manufactured-housing-finance industry. We had some difficulties when we first started in manufactured housing—in those days it was the mobile home loan program. But there has been improvement.

I think the trend toward permanently affixing manufactured houses to foundations is something that we're in favor of and certainly would be an improvement in our program.

Mr. SUNDQUIST. Any problems in the financing of manufactured homes that you think ought to be changed? Are you experiencing any problems internally?

Mr. O'TOOLE. No, not offhand, I can't think of any problems.

Mr. SUNDQUIST. What about the refinancing, foreclosures, and the quality afterward, is there any difference there than for other homes? Or is it too early to experience any yet?

Mr. O'TOOLE. Offhand, I don't know of any particular problems.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. SHELBY. The Chair next recognizes the gentleman from Florida, Mr. Bilirakis, for any statement he might have.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

I first would ask unanimous consent to enter into the record an opening statement that I have.

Mr. SHELBY. Without objection, it is so ordered and it will be entered into the record in its entirety.

Mr. BILIRAKIS. Thank you, sir.

[The statement of Michael Bilirakis follows:]

STATEMENT OF HON. MICHAEL BILIRAKIS

I want to apologize to my colleagues on the subcommittee and to our witnesses because I will not be able to stay and hear all the testimony to be presented here today. The small business subcommittee I serve on its marking up a bill this morning and I'll have to leave here shortly. However, I wanted to take the time to wel-

come you to the hearing and to thank you for taking the time to talk to us about the Veterans Administration's housing programs.

The housing programs administered by the VA are, I believe, one of the most important benefits available to the Nation's veterans. The dream of homeownership is shared by all Americans and is often not easily realized. For veterans, however, it can be even more difficult to purchase a home because their years of military service can put them at a disadvantage in the markeplace where others who did not forgo more gainful occupations to serve the country in the armed forces are competing with veterans for housing credit. The VA home loan guaranty program was established to remove that disadvantage and assist veterans to obtain the mortgage credit they need to purchase a home for themselves and their families.

Florida, as you know, has a large and growing veterans population and in fact, the number of veterans in the State will double by the year 2000 as compared with a 10 percent reduction in the number of veterans nationwide. The VA housing program is an important and successful one in Florida and one for which demand will continue to rise. I am very concerned that we were one of the States which fell behind in processing loan applications this past year. I am hopeful that continued economic progress along with continued cooperative efforts by the VA and the various mortgage lenders will help relieve the present stressful conditions under which the home loan guaranty program is operating and ensure that veteran homebuyers in Florida and across the Nation can receive the help they need in a timely manner.

I am especially pleased that Mr. Dan Winters, president of the Southern Guaranty Corporation of Winter Haven, Fla., is here today to talk about the mortgage assistance programs available to veterans who wish to purchase a manufactured home. I was pleased to support H.R. 2948 at both the subcommittee and full committee levels and again when the full House passed this important legislation. The provisions expanding VA credit assistance for manufactured homebuyers is of special interest to me because Florida is full of people, as I know Mr. Winters can tell you, who want to purchase more affordable manufactured housing.

I've looked over the advance testimony of our witnesses and I know that their thoughtful comments will be of tremendous benefit to this subcommittee as we strive to ensure that the VA's housing programs continue to assist veterans in achieving their homeownership dreams. Thank you again for coming.

Mr. BILIRAKIS. I would like also to take this opportunity to welcome Mr. Winters here, who comes not from my district but near my district, from Winter Haven. Welcome, Dan, to Washington.

I want to apologize to the committee and to all of my comrades out in the audience. I was just informed that they need me for a quorum in my small business markup. We are dealing with the military spare parts controversy and I think all of my fellow veterans would want me to be there, because that is a pretty horrible scandal.

I wanted to very briefly talk about Veterans Village in New Port Richey, Fla. Really, I don't have that much time to spend on it.

Are you familiar with Veterans Village, Mr. O'Toole?

Mr. O'TOOLE. I have only heard the name of the project, Congressman.

Mr. BILIRAKIS. Well, it is—I guess I'll call it a "subdivision" for want of a better word at this point. It seems to be solely veterans, or at least it initially started out that way, and it was something where apparently the developer came up with the concept and advertised in the VFW magazines and Legion magazines and whatnot.

I wanted to talk about that a little bit. It seems to me it might be an awfully good concept that would make available affordable housing for veterans who may want to sort of congregate together. It's a very attractive place. I am hoping that maybe we could get the subcommittee down there one of these days so we can take a look at it and also take a look at some of the other housing problems and situations.

Mr. O'TOOLE. We are not guaranteeing loans at this time; is that——

Mr. BILIRAKIS. Yes, you are.

Mr. O'TOOLE. Oh, we are?

Mr. BILIRAKIS. But I wasn't sure how the concept has worked out. In other words, the contractor constructed the homes and apparently—I don't know—apparently had made arrangement for the VA loans ahead of time. In other words, I don't think it was done on the basis of a veteran finding a particular home and making application to the VA for a VA-guaranteed loan. So I did want to investigate that, but I'm really going to have to run. But it is a concept, Mr. Chairman, that we may want to take a look at. There possibly may be other similar concepts available throughout the country. I'm really not sure.

Thank you, Mr. Chairman. Again, I apologize for having to leave.

Mr. SHELBY. Your statement, as I said, will be included in the record, without objection.

The Chair next recognizes the gentleman from New Mexico, Mr. Richardson.

Mr. RICHARDSON. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing and also for holding a hearing in my congressional district in Santa Fe, N. Mex., to look at the VA-guaranteed home loan program. I am most appreciative. Mr. O'Toole, the home loan program in New Mexico is running well.

There is one matter that I would like you to look into. I come from a district that is 20 percent Navajo, but at our hearing in New Mexico a number of Indian veterans mentioned that they have serious problems receiving a VA-guaranteed home loan. I am fully aware this issue is complex and involves the Interior Department, the VA, numerous Federal regulations, and tribal laws. I also understand lenders are very concerned about a default on the loan by an Indian because of the special status of Indian land. The bottom line, though, is that Indians have problems. I don't think any of them have ever qualified for the VA home loan guaranty program.

I would like you to suggest to me and to this committee how we can ameliorate the situation.

Mr. O'TOOLE. It is a problem, as you know a lot better than I do. I have met one time since I have been the Director of the Service, and members of my office have met other times with the Navajo people to try to work out some way that we can become more involved in home loans on the reservations and other parts of the Navajo community. There are some instances of VA loans in that area. But I think maybe we had better look at it once again and get back with you, if that's acceptable.

[Subsequently the Veterans' Administration furnished the following information:]

NAVAJO HOUSING PROBLEMS

The VA desires to assist all veterans, including Navajo Indian veterans living on reservations, to the fullest possible extent in acquiring suitable housing. However, the VA has no ready answer on how to overcome the problems which now exist on the reservations in securing individual leaseholds and guaranteed loans from private lenders. These are problems which have to be addressed by the tribal government and by the individual veterans who are seeking loans.

A major obstacle is the land title and lien problems which arise from the tribal form of land ownership on the reservations. There is a VA approved Bureau of Indian Affairs (BIA) lease available for granting leaseholds to individual veterans, but securing the necessary tribal and BIA approvals for a particular homesite leasehold is a time consuming matter. On the Navajo reservation a request for a specific leasehold must be cleared through a sub-tribal or family group living in the affected area and then receive final approval by the tribal council. The proposed leasehold tract must be surveyed and a plat prepared delineating the homesite. This can be done either by employees of the tribal council or by a private surveyor. If a private surveyor is hired to make the survey the cost is prohibitive. We understand that it may take as long as 1 or 2 years or more to get a final survey plat of a homesite. These delays in securing the required approvals and land surveys compound the process of securing a home loan since they are a prerequisite to a loan application.

The VA has no authority to make direct VA loans anywhere except in connection with specially adapted housing grants for seriously disabled veterans, so loans made by private lenders which can be guaranteed by the VA are the only current options available for securing a VA loan. Private lenders are understandably reluctant to become involved in real estate transactions and loan commitments which may not be completed within a reasonable length of time.

Another factor which deters private lenders from making loans on reservation leaseholds is the reluctance of some lenders to make loans for homes located on any leased land whether or not it is located on or off a reservation. Lenders are also wary of loan foreclosure and liquidation problems which might arise on defaulted loans on reservation lands.

Another major problem that many of the Navajo have is their difficulty in establishing that they have sufficient income and prior satisfactory credit experience necessary to obtain and repay a home loan. Private lenders are not required to participate in the VA home loan guaranty program, and since the lending of money is a voluntary activity, lenders are very cautious about making loans to persons with marginal incomes.

The leasehold approval process and the land survey problems are matters which are entirely under the control of the tribal government. Any changes in these processes to simplify and speed up the resolution of these problems must be initiated by the Navajo tribe. We understand that there are some private lenders in the area who are willing to make VA loans on approved reservation leaseholds for veterans meeting the underwriting requirements.

One possible solution to the housing loan problem on the Navajo Reservation would be for the tribal council to develop a direct lending program for its members. Under such a program the tribe could establish a revolving fund from which it would make home loans to its members. The VA would then issue the regular VA guaranty to the tribal council based on VA's normal prior approval process for loans made to eligible veterans.

The Veterans' Administration remains committed to assisting the Navajo veterans in any way possible consistent with governing laws.

Mr. RICHARDSON. This is a growing problem.

The chairman of the Hospitals and Health Care Subcommittee, Congressman Edgar and I, held another veterans hearing in New Mexico on October 23, and the issue came up again. If you could maybe give us some ideas. Legislation might be the only possible remedy and if we do that, we want to work with you.

The last time you came before this committee you said that 17 of your regional offices weren't meeting the timeliness requirements in processing loan applications. Now only five offices are not meeting these requirements. I am very pleased with this improvement. What is the reason for this improvement besides your sound management? Do you have more personnel in your department? What is the secret of your success?

Mr. O'TOOLE. Well, a combination of a number of things besides that top management that you mentioned. [Laughter.]

We do have an increase in personnel in our field stations. We also have, particularly in the last 6 or 8 months, worked an awful

lot of overtime. Some of our larger offices are working 6 days a week on a routine basis to process that workload. And the increase in the mortgage lender's use of the automatic procedure. So all of those are working toward reducing that.

The current problems that we have in those five stations are not across the board. They are particular areas of processing.

Mr. RICHARDSON. I have another question.

Mr. SHELBY. Go ahead. You have the time.

Mr. RICHARDSON. My understanding is that when a veteran purchases a home he pays for the appraisal. When there is foreclosure, another appraisal fee is required. Who pays for that? Does the veteran or does the VA, and if it's the VA, do you have a fund for this?

Mr. O'TOOLE. The current procedure is that the VA pays for that foreclosure appraisal under our general operating expense account.

Mr. RICHARDSON. And is this procedure subject to change?

Mr. O'TOOLE. Well, we have some problems in the processing of those appraisal reports. We are looking at ways to improve that by having that appraisal processed by the lender and perhaps included in the claim amount. But we haven't worked that through the agency yet, so it's a little premature.

Mr. RICHARDSON. I have one final question. Is the VA working hard to get the chairman's bill, H.R. 2948, passed in the Senate?

Mr. O'TOOLE. The foreclosure relief?

Mr. RICHARDSON. Yes.

Mr. O'TOOLE. Mr. Richardson, the Administration has testified against that legislation.

Mr. RICHARDSON. Oh. I thought they were very strongly for it, Mr. Chairman.

Mr. SHELBY. If you would yield to me, I thought they would be for it when the bill passed the House. I forget the number, but it was about 390 votes or something like that. I thought the Administration would get the message that the House was overwhelmingly interested in the legislation. I believe the same thing would happen in the Senate if they would get it up to a vote. I know that Senator Spector is interested in it over there.

I know you speak at times for the Administration, and you're doing it today.

Mr. O'TOOLE. Thank you, sir.

Mr. SHELBY. I yield back.

Mr. RICHARDSON. Thank you, Mr. Chairman. I would just like to submit my opening statement.

Mr. SHELBY. Your statement will be submitted to the record in its totality.

[The statement of Hon. Bill Richardson follows:]

STATEMENT OF HON. BILL RICHARDSON

Mr. Chairman, I want to thank you for holding this hearing today on the Veterans' Administration home loan guaranty program.

It is the dream of every American to own their own home. The VA home loan guaranty program helps to keep that dream alive for veterans of the armed services, However, continuing high interest rates and unemployment has threatened the ability of many to buy or keep their homes. This committee approved H.R. 2948, which was overwhelmingly passed by the House, to provide limited assistance to unemployed

veterans facing forclosure. This legislation would also assure the housing needs of veterans who choose manufactured housing.

However, H.R. 2948 has been stalled in the other body and its future remains uncertain. I was honored to have Chairman Shelby travel to my district in New Mexico recently to hold a field hearing on the Santa Fe National Cemetery and the VA home guaranty program. At that hearing we heard testimony from the veterans regional office that the loan program was working well and that applications for loans were being processed rapidly. However, we also heard testimony from unemployed veterans and a mortgage loan association representative who felt it made good sense to help unemployed veterans keep their homes until they could get back on their feet.

I was happy to hear that the the home loan guaranty program was working well for veterans in New Mexico. I look forward to hearing the testimony today on how we can make that program work even better.

Again, I want to thank you Mr. Chairman for holding this hearing today.

Mr. RICHARDSON. I yield the balance of my remaining time.

Mr. SHELBY. Thank you.

Mr. O'Toole, on behalf of the committee, I want to thank you and the other gentlemen for coming before us today. We will continue to try to monitor the VA and to work with you because I think we are basically interested in the same thing, that this program works, and see what legislatively we can do to make it work for the veterans in this country.

Thank you for coming.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. SHELBY. Our next witness is Mr. Ronnie Wynn. He is the president of Colonial Mortgage Co. in Montgomery, Ala., and he will be accompanied by Burton Wood, legislative counsel, and Charles H. Fritts, associate legislative counsel. Mr. Wynn will testify on behalf of the Mortgage Bankers Association.

Ronnie, welcome to the committee. I know you know first hand a lot about the VA guaranteed home loan program because you're dealing with it every day. We would like to see what some of your oral remarks are.

Your written testimony made a part of the record, without objection, and you just say what you want to because we're going to be asking you some questions.

STATEMENT OF RONNIE J. WYNN, PRESIDENT, COLONIAL MORTGAGE CORP., MONTGOMERY, ALA., ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA, ACCOMPANIED BY BURTON C. WOOD, MBA LEGISLATIVE COUNSEL, AND CHARLES H. FRITTS, MBA ASSOCIATE LEGISLATIVE COUNSEL

Mr. WYNN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Ronnie J. Wynn. I am president of Colonial Mortgage Co., a mortgage banking firm headquartered in Montgomery, Ala. I appear before you today on behalf of the Mortgage Bankers Association of America. As the chairman has stated, accompanying me are Burton C. Wood, MBA's legislative counsel, and Charlie H. Fritts, MBA's associate legislative counsel. We appreciate the opportunity to testify on the Veterans' Administration home loan guaranty program.

MBA believes that the home loan guaranty program is an excellent one, that it has served the Nation's veterans well, and that the VA has operated it excellently.

28-483 O - 84 - 3

During the last decade, mortgage bankers originated approximately 76 percent of all VA-guaranteed loans. The VA home loan guaranty program is one of the most successful housing programs in this Nation's history. Approximately 11 million veterans have been housed with VA-guaranteed loans.

The main thrust of today's hearing is to discuss the status of the loan guaranty revolving fund. According to recent reports, an unusually high level of claims has, for the first time in many years, raised the need to replenish the fund.

The program has been self-supporting since its inception in the 1940's. However, due to the recent recession, high interest rates, and the resultant increase in foreclosures, the revolving fund is currently not able to support itself. During this calendar year, it has been necessary for the VA to transfer $400 million to the loan guaranty revolving fund from the direct loan fund and to sell $759 million in loans to generate capital for the fund.

We believe that the revolving fund's troubles are temporary and that the VA will be able to rectify the situation as the economy improves. MBA's most recent data indicates that the VA foreclosure rate has declined from the last quarter.

We hope that, as the economy recovers, the loan guaranty revolving fund will be able to work its way out of its present difficulties. Because the VA home loan guaranty program is an entitlement program, we urge Congress to be prepared to appropriate the necessary funds to keep the revolving fund solvent in the event it is necessary to do so, or to allow the VA, on a short-term basis, to borrow the necessary funds from the Treasury.

As pointed out earlier, MBA, in previous testimony questioned the appropriateness of charging a veteran a fee for the use of a congressionally determined entitlement program. However, if a fee is charged, it should be applied directly to defray expenses attached to program administration, similar to the treatment of the user fees under the nonsubsidized FHA mortgage insurance programs, rather than be treated as general revenues of the Treasury. Assuming the funding fee will remain in place, we urge Congress to direct that the funding fee that is collected be dedicated to the VA revolving loan guaranty fund.

There are several other MBA recommendations with respect to the VA programs that I will discuss briefly. They are dealt with in greater detail in our written statement.

MBA has long supported a free rate for both the FHA and VA programs. When I say "free," I mean one freely negotiated between the borrower and the lender and which may or may not include discount points as determined by the needs of the parties.

MBA also supports legislation that would authorize VA to guarantee financing of the purchase of double-wide manufactured homes and lots under the regular guaranty program.

With respect to the automatic guaranty program, we point out in our testimony a number of changes which should be made to make the automatic guaranty program more workable. These don't necessarily involve legislative changes but could be implemented by the VA. They include local lender branch office processing and permission for lenders' employees to provide required property ap-

praisals. Both of these procedures are permitted in HUD's direct endorsement underwriting program for FHA programs.

Last, we hope Congress will keep a close watch on VA staffing requirements. With the VA program helping housing lead the Nation in its current economic recovery, it is essential that there be sufficient personnel to process loan guaranty applications in a timely fashion.

We appreciate the opportunity to present this testimony and would be happy to answer questions or furnish any additional desired information.

[The statement of Mr. Wynn appears on p. 44.]

Mr. SHELBY. Mr. Wynn, just a minute ago you testified in support of one of the provisions contained in H.R. 2948, namely, that which would authorize the VA to guarantee financing the purchase of a double-wide manufactured home and lot under its regular loan guaranty program. It is my understanding that this would apply only to States where this type of manufactured home is considered real property under the law.

Can you tell us how many States this would affect, if you know?

Mr. WYNN. Sir, we would have to furnish you that information.

Mr. SHELBY. OK. If you would furnish that information to the committee, we would appreciate it. Then I will share it with the other members of the committee.

Mr. WYNN. We would be happy to do that, Congressman.

Mr. SHELBY. Are you familiar, you or the two gentlemen with you, with a copy of the letter the mortgage bankers addressed to Mr. Peter Grace, Chairman of the President's Private Sector Survey on Cost Control, where they made the recommendation that the VA no longer acquire foreclosed properties? [1]

Mr. WYNN. Yes, sir, I am familiar with that.

Mr. SHELBY. If the VA actually followed this recommendation, can you tell me what impact this would have on lending institutions?

Mr. WYNN. I think it would certainly have a negative impact, because now the lending institutions recognize the security behind the VA loan. If the VA were to pay the guaranty or the 60 percent, whichever is less, and have the property remain in the lender's hands for disposition, I certainly believe that would impact on pricing and impact on the conduit of money from the lender into the secondary market.

Mr. SHELBY. I know that your company, the Mortgage Bankers, that you operate in several States. About what percentage of your new loans are VA guaranteed?

Mr. WYNN. My personal experience is around 45 percent.

Mr. SHELBY. How much?

Mr. WYNN. Forty-five.

Mr. SHELBY. That's pretty high.

Mr. WYNN. Yes, sir.

Mr. SHELBY. And how many States is that you're covering?

Mr. WYNN. We originate currently in four States and have originated in as many as seven.

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[1] See p. 44.

Mr. SHELBY. The Chair recognizes now the gentleman from Tennessee, Mr. Sundquist.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. Wynn, thank you for your testimony. I hope you will extend my greetings to the Louders, who are friends of mine.

Mr. WYNN. Thank you, sir. I sure will.

Mr. SUNDQUIST. I just have one quick question, and that is in regard to the staffing at the VA at the present time. In your testimony you said that at peakload in 1983 we had problems. Do we have problems right now?

Mr. WYNN. The problems are not as great. They were confined to certain areas of the country, high volume origination areas. Primarily they were confined to the appraisal section. So while we have a quicker response than we did—and certainly the VA has made every effort to improve the response time—in some areas the response of a VA appraisal can slow down the processing period.

Mr. SUNDQUIST. I think we're all hoping that 1984 is going to be even a better year, and to prepare for that does the VA need to strengthen the appraisal area and then also do anything else, or is that essentially it?

Mr. WYNN. I think they can do two things. No. 1, as we point out in our testimony, under the guaranty program now the underwriting has to be done either in a home office or in a regional-type office. If we could allow the underwriting to be done on a local level, as opposed to a centralized level, that would certainly increase the penetration of loans which are done under the automatic program.

No. 2, if the lender could either employ or have the right to choose the appraiser as opposed to those which are appointed by the VA, to generate a large number of eligible appraisers—certainly we would have to be responsible for their qualifications—that those two things, taken together, could improve——

Mr. SUNDQUIST. I understand the first suggestion. The second suggestion, maybe I don't understand. Would that not lead to a potential conflict of interest?

Mr. WYNN. No, sir. I think that we are responsible now for the appraisal that is done. Even though VA is the one that selects the appraiser, we as the lender still have the responsibility for that appraiser. We are constantly under the review of VA and its field offices for the work that we do, and they do a very good job in insuring that we follow their procedures and their regulations to insure the integrity of the program. I don't think the integrity of the program would be degraded in any way by allowing us to do that.

Mr. SUNDQUIST. Thank you, Mr. Wynn.

Mr. Chairman, I think, without objection, if it would be possible to ask the VA to respond to this committee as to what their plans are—they have 5 regional problems now as opposed to the 17 I think that were mentioned earlier—what their plans are for 1984, how they expect to staff up, and if we could incorporate Mr. Wynn's suggestion.

Mr. SHELBY. If the gentleman will yield, that's a good suggestion, and we will direct the staff now to follow up on that for the benefit of the committee. I thank the gentleman from Tennessee.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Thank you, Mr. Wynn.

Mr. SHELBY. Mr. Wynn, I have another statement that was spawned by the gentleman from Tennessee's earlier question. What is the turn-around time, generally, as far as your knowledge of it is concerned—let's say veteran "A" applies for a loan in Atlanta, Ga., a VA guaranteed loan, or anywhere that you're familiar with the territory. What is the turn-around time versus a HUD approved appraisal and so forth? Do you see what I'm getting at?

Mr. WYNN. Yes, sir. Again, Mr. Chairman, it depends on the area that you're talking about. In high volume areas it can be as much as 2 to 3 weeks longer than the FHA turn-around time. Under the new FHA programs, now that a qualifying lender can have its own appraisal staff, then the time is going to be significantly different.

Mr. SHELBY. How does it work, say, in Alabama, in Montgomery?

Mr. WYNN. In Alabama, there is no appreciable difference. In Alabama, as you know, the economy has eliminated the high volume of loans in recent years. So, as a result, the VA office is able to, through its appraisers, is able to be comparable, and even in some cases, faster.

Mr. SHELBY. Thank you.

Mr. Wood, go ahead.

Mr. WOOD. Mr. Chairman, if I may, you made reference to the Grace Commission report, and with your permission I would like to have our response to that included in the record.

Mr. SHELBY. Without objection, it will be included.

[The information appears at p. 52.]

Mr. SHELBY. Do you have any other comments you want to make on it?

Mr. WOOD. No, sir.

Mr. SHELBY. Except you questioned it, in other words?

Mr. WOOD. Yes, sir, we did.

Mr. SHELBY. Thank you.

Mr. Fritts, do you have any statement or comments?

Mr. FRITTS. No, sir.

Mr. SHELBY. Mr. Wynn, Mr. Wood and Mr. Fritts, I appreciate you appearing before us this morning. If you have anything else you want to submit to the record, please send it to us. We will hold it open 5 days.

Mr. WYNN. Thank you, Mr. Chairman.

Mr. SHELBY. Our next witness to come before the committee will be Mr. Dan Winters, president, Southern Guaranty Corp., accompanied by Mr. Alan Schneeberg, National Manufactured Housing Finance Association. Gentlemen, welcome to the committee.

Your written testimony, as you probably have already heard me say, will be submitted in its totality to the committee and made part of the record. If you would briefly orally sum up any comments you might want to make, this will give us some time to ask you some questions.

STATEMENT OF DAN WINTERS, PRESIDENT, SOUTHERN GUARANTY CORP, AND CHAIRPERSON, RETAIL FINANCE COMMITTEE, THE NATIONAL MANUFACTURED HOUSING FINANCE ASSOCIATION; ACCOMPANIED BY ALAN SCHNEEBERG, NMHFA WASHINGTON, D.C. COUNSEL

Mr. WINTERS. Mr. Chairman, members of the subcommittee, my name is Dan Winters. I am president of Southern Guaranty Corp. a manufactured home lending company, based in Winter Haven, Fla. I am here on behalf of the National Manufactured Housing Finance Association. NMHFA is a national association of lenders who finance manufactured homes, primarily through Federal housing loan programs such as the VA manufactured home loan program. We are pleased to have this opportunity to present our views to the subcommittee on the VA manufactured home loan program.

NMHFA believes that the program is an excellent one and that the VA has operated the program well. Since its creation by the Veterans' Housing Act of 1970, the program has assisted over 75,000 veterans in purchasing manufactured homes. Through the VA manufactured home program, an eligible veteran can obtain financing for a new or existing manufactured home, or a manufactured home and lot, with no downpayment, and having a maximum term that can range as long as 25 years. With the prices of site-built homes beyond the reach of many veterans, the VA manufactured home loan guaranty program offers affordable home ownership to veterans who might otherwise be limited to substandard or rental housing.

Recently the VA loan guaranty revolving rund, which includes both single-family home mortgage loan program and the manufactured home loan program, has suffered significant depletion, notwithstanding the increasing volume of VA loans. This is due to a greater number of defaults and larger claims on the VA guaranty loans.

The rise in defaults and foreclosures, particularly in the VA manufactured home program, is a result of record high unemployment and home loan interest rates which have characterized the recent economic recession, as well as the greater number of loans written during the period. Owners of manufactured homes generally have a lower household income than owners of conventional single-family homes. They are, therefore, more susceptible to the effects of the recession than conventional home owners, both in terms of unemployment and higher home credit cost. In 1981 the median household income for owner occupants of new manufactured homes was $12,800, compared with the median income for all households of $19,074.

Despite the increase in defaults, the members of our association are doing everything in our power to prevent foreclosures. Our lenders have been exercising voluntary forebearance and working with the veterans who are delinquent in their home loans so that they may keep these homes. We are optimistic that, as the economy continues to ease out of the recession, and interest rates moderate, the rate of defaults and foreclosures will decline as will the resulting drain on the VA revolving fund also will decline accordingly.

To deal with the more immediate need of replenishing the revolving fund, we recommend that the VA user fee, which was recently imposed upon veterans, be redesignated by the Congress for use in operating the VA loan guaranty program rather than being paid to the Treasury in the form of general revenues. This could help alleviate the need for new appropriations and have the statutory effect of sustaining the program with its own revenues.

Since the beginning of the VA program, the VA and members of the manufactured home lending industry have cooperated on many occasions in order to make the home program as successful as possible. Cooperation is extremely important and we trust it will continue.

We have had excellent cooperation through the staff working with us and we find their attitude on all levels to be excellent. Flexibility on the part of VA has enabled the program to make changes within the statutory parameters, and this responds to the needs of veterans in purchasing homes.

This concludes our comments. The balance of our comments is contained in our written statement. If there is any way we can answer questions, we would be happy to.

[The statement of Mr. Winters appears at p. 61.]

Mr. SHELBY. I have a couple of questions.

Manufactured housing constitutes what percentage of the overall VA loan guaranty program? Do you have any knowledge of that? What percentage of the overall home loan guaranty program is manufactured housing?

Mr. WINTERS. I think manufactured homes comprise about 11 percent of all homes financed through the VA program in 1982.

Mr. SHELBY. Is that on the upswing or has it remained constant, or is it down or what?

Mr. WINTERS. It has been increasing. In other words, there are more VA manufactured homes financed under the VA program now as a percentage of the total than previously.

Mr. SHELBY. Although the statute does not differentiate, the VA precludes, by regulation, such processing for manufactured home loans. Why are veterans who have VA guaranteed manufactured housing loans not afforded the same automatic processing for refinancing as veterans who have conventional built homes? Do you have any knowledge on that?

Mr. WINTERS. We would like lenders who have an automatic lender status to be allowed to exercise that same prerogative in the refinancing of manufactured homes without prior submission to the VA office.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee, Mr. Sundquist, for any comments he may have.

Mr. SUNDQUIST. Thank you, Mr. Chairman. I think you have covered it very well.

Mr. Winters, where is your home? I'm just curious.

Mr. WINTERS. Winter Haven, Fla.

Mr. SUNDQUIST. And Southern Guaranty Corp. is what kind of company?

Mr. WINTERS. We are a manufactured home mortgage banking firm. We finance or arrange the financing for manufactured homes

in several States, including Texas, Alabama, Georgia, and North Carolina.

Mr. SUNDQUIST. How many companies are in the manufactured home business, just out of curiosity?

Mr. WINTERS. In the financing or the manufacturing?

Mr. SUNDQUIST. In manufacturing. You can furnish it to me later.

Mr. WINTERS. We'll be happy to provide it for the record. [1]

Mr. SHELBY. If you will provide that for the record, we will disseminate it.

Mr. SUNDQUIST. I'm not sure I understand the answer to the question the chairman asked in terms of VA regulations concerning automatic reprocessing. Obviously, you think that ought to be changed.

Mr. WINTERS. Yes. We manufactured home lenders are granted, providing we meet certain requirements, an automatic lender status to process a new loan application. We process that and later the Veterans' Administration gets involved. This eliminates a heavy workload on the front end to the Veterans' Administration, permits a quick processing time, and allows the veteran to have his home and his loan is granted expeditiously.

However, in order to refinance that same loan—let's say we put the veteran in a home and made a mortgage last year when interest rates were very high at 18 percent, and today we could refinance that at a much lower interest rate; we cannot process that on an automatic lender status. We must send it to the Veterans' Administration for prior approval.

At the same time, when the volume gets the heaviest is when interest rates begin to fall. When rates are at their lowest level, the veteran wants his lender to refinance. To do so, we must send the paperwork to the VA office; however at the same time, the VA office is getting all this other surge of business because of new home starts. This causes the processing of paper to increase, so their workload is at its highest peak.

Mr. SUNDQUIST. Why do you think that exists that way? Is it just an oversight?

Mr. WINTERS. It is a matter of regulatory implementation which is something we're working on with the VA and would like to see changed to allow the automatic lenders to process loan applications for refinancing, and then submit them to the VA.

Mr. SUNDQUIST. I understand what you want, but my question is why did it occur?

Mr. WINTERS. I'm not sure.

Mr. SUNDQUIST. Mr. Chairman, I should have asked the VA that question when they were here. Perhaps I could submit it for the record as to why that exists and what the reasoning is for that.

Thank you, Mr. Chairman.

Mr. SHELBY. Gentlemen, I appreciate you coming before the committee, and any additional comments and information that was requested, I hope you will submit it to the committee as soon as possible. Thank you again for coming.

Mr. WINTERS. Thank you.

Mr. SHELBY. Our next witnesses are Mr. Philip Mayo, special assistant, Veterans of Foreign Wars of the United States, and Mr.

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[1] See p. 68.

Stephen Edmiston, Disabled American Veterans. He is the deputy national legislative director. Gentlemen, if you would come forward and take your seats at the table.

Your written testimony, as you probably realize, will be made part of the record in its totality. If you will briefly sum up your remarks orally before the committee, it will give us a chance to hopefully ask you some questions or make some comments.

Mr. Mayo.

STATEMENT OF PHILIP R. MAYO, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; AND STEPHEN L. EDMISTON, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

STATEMENT OF PHILIP R. MAYO

Mr. MAYO. Thank you, Mr. Chairman. It is a pleasure to be before you this morning on behalf of our 1.96 million members.

We would like to begin by commending you and the members of the subcommittee for your continuing interest in keeping the veterans housing program as realistic and workable as it has been over the years. This interest is not only demonstrated by the holding of today's proceedings but also by the subcommittee's insightful consideration and passage of H.R. 2948, which has, unfortunately, languished on the other side.

In considering the current status and functioning of the veterans home loan program, the delegates to our most recent national convention adopted several resolutions. Those are entitled "Veterans' Administration Home Loans" and "Buyer Brokering." I have appended those to my testimony and we would urge the committee give them careful consideration.

We believe that the VA loan guaranty program has and continues to serve veterans well. At the same time timely action is needed in order to keep it a viable program. This subcommittee and the Congress have responded positively to such challenges in the past and we are confident that they will again. For this concern and action, we express our sincere gratitude.

That concludes my summary.

Mr. SHELBY. Thank you.

[The statement of Philip Mayo appears at p. 70.]

Mr. SHELBY. Mr. Edmiston.

STATEMENT OF STEPHEN L. EDMISTON

Mr. EDMISTON. Thank you, Mr. Chairman. It is a pleasure to be here this morning on behalf of the more than 809,000 members of the Disabled American Veterans to present our views on the VA home loan guaranty program.

We wish to commend you for holding this hearing and keeping a watchful eye on the effectiveness of this important program. Additionally, we wish to further compliment you and the members of the subcommittee for your continual efforts to improve all veterans' housing programs.

As you know, Mr. Chairman, the purpose of the VA loan guaranty program is to assist eligible veterans in obtaining mortgage credit for the purchase of existing or manufactured homes, and

28-483 O - 84 - 4

construction of new homes to be occupied by veterans and their families.

As we all know, in the past few years the housing and financial markets have experienced shortgages of mortgage funds, increased home prices and ownership costs, as well as the highest interest rates in history. Additionally, this same period has been marked by unprecedented rates of high unemployment.

It appears, as a result of this economic problem, that the VA will more than likely be required to seek additional appropriations to replenish the loan guaranty revolving fund due to the high foreclosure rates experienced in the VA home loan program. Mr. Chairman, the DAV supports providing additional appropriations to insure the integrity and financial stability of the VA's home loan guaranty program.

While discussing the VA's home loan program, we feel compelled to bring to the attention of the subcommittee our concern regarding actions taken in the House of Representatives just a few months ago that could adversely impact on home buying veterans who wish to use their VA home loan eligibility. Specifically, I am referring to the provision in House Report 1, which would allow FHA mortgage interest rates to float according to the market rate, instead of a rate fixed by the Secretary of HUD.

Our concern is, Mr. Chairman, should this provision of House Report 1 be enacted into law, what impact, if any, will it have upon the VA loan guaranty program. Because of the uncertainty this provision of House Report 1 may have upon the VA home loan program, we strongly suggest that the subcommittee give serious consideration to legislation that would clarify the VA Administrator's authority to set the rate of interest for VA guaranteed home loans and increase the guarantee to 60 percent of the loan or $40,000, whichever is the lesser. Such approach will, in our view insure that the VA program remains competitive with the new FHA and commercial markets.

Before closing, I would like to briefly comment on the VA's specially adapted housing assistance programs. In considering the increased cost for new home construction and remodeling adaptations in recent years, and the intended purpose of these programs as outlined in sections 801 and 802 of title 38, the DAV believes that the amount of these grants should be increased to at least $35,000 for special adapted housing, or an amount equal to approximately one-half the average cost of such housing in fiscal year 1983, and to $7,500 for the special housing assistance program.

Mr. Chairman, the DAV would strongly urge the subcommittee to favorably consider legislation to increase these grant programs for certain seriously disabled service-connected veterans.

That concludes my remarks, Mr. Chairman. I again wish to thank you and members of the subcommittee for inviting us here today to express our views on these important subjects.

[The statement of Stephen L. Edmiston appears at p. 76.]

Mr. SHELBY. I want to thank both of you for presenting your statements. I think they are well thought out. I don't have any specific questions but I want to assure both of you, in representing your various organizations, which are so important to veterans, that we on the committee do believe that the VA loan guaranty

program has and will continue to serve veterans well. We want to do everything we can working with you to improve it, to see that it reaches the veteran, that it does what we intended all along for it to do. So we welcome your suggestions, your comments and everything else.

I will recognize the gentleman from Tennessee for any comments he has.

Mr. SUNDQUIST. Thank you, Mr. Chairman. I would just like to thank these gentlemen and their organizations for what they do for veterans.

I appreciate your holding these hearings today, Mr. Chairman.

Mr. SHELBY. Thank you. We appreciate your coming.

Mr. MAYO. Thank you, Mr. Chairman.

[Whereupon, at 10:07 a.m., the subcommittee was adjourned.]

APPENDIX

QUESTIONNAIRE FOR VETERANS ADMINISTRATION

GUARANTEED LOAN ACTIVITIES

VA Regional Office Address: _____.

Director's Name: _____.

Director's FTS Telephone: _____.

Name of Person in Charge of VA Home Loan Activity: _____

FTS Telephone: _____

I. Appraisals:

For the three months ended March 31, 1983, please indicate the number of homes appraised: _____.

The most recent previous period of peak appraisal activity was when? _____.

The quarterly volume of appraisals at that time was about: _____.

How many employees are presently working in the appraisal activity? _____.

During the last previous period of high appraisal volume, how many employees were assigned to the appraisal activity? _____.

II. New Loans:

For the three-month period ending March 31, 1983, how many loans did your office guarantee? _____.

The last previous period of peak loan volume was when? _____.

At that time, the quarterly volume of loans guaranteed was about _____.

How many employees are presently working on processing loans? _____.

How many employees were assigned to this activity during the previous period of peak volume in loans guaranteed? _____.

III. Loans with Payment Problems:

How many loans do you now have on record as being behind in the payments? _____.

How does this number compare with the situation one year ago? _____.

With two years ago? _____. What do you expect will be the future trend in this activity? _____.

III. (Cont'd.)

How many employees are now working on loans with payment problems or loans in foreclosure? _____. How does this number of employees compare with the number working in this area one year ago? _____. Two years ago? _____.

IV. Foreclosed Properties:

During the three months ended March 31, 1983, how many VA loans have been foreclosed? _____. How does this number compare with the volume one year ago? _____. Two years ago?_____. What is your estimate for the future trend in this activity? _____

_____.

How many employees do you now have working on management and sale of foreclosed properties? _____. Is your employment in this area up or down from one year ago? _____. From two years ago? _____.

V. Comments on Current Conditions:

Are all of your loan guaranty activities now operating in accordance with your agency's standards for quality processing times and compliance with established requirements? _____. If not, please indicate the items, processing actions or activities which presently are not meeting established standards and requirements. Briefly describe the nature, size, and scope of the problem(s).

_____

_____

VI. Employment:

At the present time, how many additional employees do you believe would be needed to maintain all of your loan guaranty activities in accordance with the operating standards established by your Agency? _____.

VI. (Cont'd.)

If your loan guaranty activity were to be allotted additional personnel, which element or phase of the operation do you believe has the most urgent need for more employees? _____.

Briefly outline your reasons for this choice._____

_____

_____

VII. Other Comments:

Please add any other data or explanation which you believe would add to a better understanding of the present situation in your loan guaranty activity.

_____

_____

_____

_____

GUARANTEED LOAN ACTIVITIES

APPRAISALS

	Current Activity	Current Staff	Prior Peak Activity	Prior Staff	Percentage of Increase or Decrease in Activity	Percentage of Increase or Decrease in Staff
Eastern Region	66,632	137.5	68,610	157.3	- 3 %	- 13 %
Central Region	43,984	136.8	51,515	195.4	- 15 %	- 30 %
Western Region	62,185	145.5	64,625	209	- 4 %	- 30 %
TOTALS	172,801	419.6	184,750	561.7	- 6 %	- 25 %

LOANS

	Current Activity	Current Staff	Prior Peak Activity	Prior Staff	Percentage of Increase or Decrease in Activity	Percentage of Increase or Decrease in Staff
Eastern Region	23,132	108.9	28,691	156.8	- 19 %	- 31 %
Central Region	19,502	126	30,175	201	- 35 %	- 37 %
Western Region	26,823	142	43,827	231.5	- 39 %	- 39 %
TOTALS	69,457	376.9	102,693	589.3	- 32 %	- 36 %

DELINQUENT LOANS

	Current Activity	1 yr. ago	2 yrs ago	% of Change 1 yr.	% of Change 2 yr.	Current Staff	1 yr. ago	2. yrs. ago	% of Change 1 yr.	% of Change 2 yr.
Eastern Region	33,494	30,296	28,947	+ 11%	+ 15%	140.6	148.8	154.8	- 6%	-10%
Central Region	39,320	34,795	29,980	+ 13%	+ 31%	167.3	168	171	- 1%	- 2%
Western Region	36,353	30,855	25,617	+ 18%	+ 42%	166.5	161.5	156.5	+ 6%	+ 6%
TOTALS	109,167	95,946	84,544	+ 14%	+ 29%	474.1	478.3	482.3	- 1%	- 2%

FORECLOSED PROPERTIES

	Current Activity	1 yr. ago	2 yrs. ago	% of Change 1 yr.	% of Change 2 yrs.	Current Staff	% of RO staff with No Change		% of RO staff increase		% of RO staff decrease	
Eastern Region	1,772	1,422	1,451	+ 25%	+ 22%	104.5	56%	39%	11%	17%	33%	44%
Central Region	3,349	2,738	2,294	+ 22%	+ 46%	141.6	12%	23.5%	71%	58.8%	17%	17.6
Western Region	2,012	995	733	+102%	+174%	80.5	43%	21%	57%	79%	0%	0%
TOTALS	7,133	5,155	4,478	+ 38%	+ 59%	326.6	37%	29%	45%	59%	18%	12%

STANDARDS

	RO meeting timeliness	Percentage	RO not meeting timeliness	Percentage	EMPLOYEES NEEDED TO MAINTAIN TIMELINESS STANDARDS
Eastern Region	7	39%	11	61%	
Central	15	8%	15	8%	101
Western Region	2	14%	12	86%	123
TOTALS	11	22%	38	78%	144.5
					368.5

STATEMENT OF ROBERT M. O'TOOLE
DIRECTOR, LOAN GUARANTY SERVICE
VETERANS ADMINISTRATION
BEFORE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
OCTOBER 27, 1983

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program. I have with me today Raymond L. Brodie, Assistant Director for Loan Management, and James P. Kane, Assistant General Counsel.

Reflecting the recent improvements in the Nation's economy, Mr. Chairman, VA loan activity was sharply up during Fiscal Year 1983 compared to the previous Fiscal Year. During the fiscal year just ended, VA processed 338,505 applications for guaranteed home loans, which was 189 percent more than were processed in Fiscal Year 1982. The Administrator actually guaranteed 231,620 loans in Fiscal Year 1983, almost 2½ times the number guaranteed in Fiscal Year 1982. In addition VA issued more than 650,000 certificates of reasonable value representing more than a 120 percent increase over Fiscal Year 1982.

28-483 O - 84 - 5

The increased loan activity coincided with a reduction in the maximum interest rates on VA guaranteed home loans. This rate varied from 11½ to 13½ percent during Fiscal Year 1983. This compares to rates varying from 13½ to 17½ percent during Fiscal Year 1982.

While workloads remain heavy in VA's 50 loan guaranty offices, only 5 stations reported significant out-of-line timeliness situations as of October 17, 1983. This is an improvement over the 17 stations that reported timeliness problems at the end of February 1983.

Mr. Chairman, one of the reasons for the improvement in timely processing of VA loans is the increased use by lenders of automatic loan closing authority. For instance, in August 1983, 40 percent of the VA loans guaranteed were closed by lenders on the automatic basis. This is nearly double the usual proportion of automatic to prior approval loans closed by lenders in previous years. We are seeking to have lenders with automatic processing authority close a minimum of 50 percent of their loans on the automatic basis.

To increase further the number of loans closed on the automatic basis, in June 1983, we implemented new regulations to allow lenders to close regular refinancing loans and interest rate reduction refinancing loans on the automatic basis. Both types of refinancing loans previously were required to be submitted for VA prior credit underwriting approval. This new procedure, which

allows lenders to establish loan discounts based on an index using Government National Mortgage Association forward prices, should assist lenders to increase the number of loans closed on the automatic basis.

Workloads also continue very heavy in our property management activities with 21,494 properties acquired and 18,634 properties sold by the VA during Fiscal Year 1983. VA has continued for the remainder of this Calendar Year an interest rate reduction program in 14 field stations with large property inventories. This program has allowed sales of difficult to sell properties at interest rates lower than the standard vendee loan interest rate. Overall, VA sold homes at a rate of 87 percent of the properties acquired during Fiscal Year 1983 as compared to a 65 percent rate in Fiscal Year 1982. Increased emphasis has been placed on reducing the existing property inventory in order to return assets to the revolving funds, but we expect the workload in the property management area to remain heavy for the current fiscal year.

Mr. Chairman, despite our heavy workloads, VA has not altered its timeliness or quality performance standards. While the number of quality reviews were temporarily decreased as far as the percentage of loan applications or appraisals reports reviewed, almost all standards have been restored to their pre-1983 levels. A minimum of 10% of approved prior approval loan applications are post-audited, and 10% of issued Certificates of Reasonable Value are field reviewed. Such field reviews or post

audits are accomplished on a random selection basis. Field stations are also authorized to perform additional audits if needed. For instance if a loan application is suspected of containing imprecise information, the station may perform an audit to verify the accuracy of the questionable information. Every effort is being made to return all field operations to timely operations, and sufficient quality reviews are being performed to assure program integrity.

Mr. Chairman, you requested that the VA discuss the status of the Loan Guaranty Revolving Fund. The balance in the Loan Guaranty Revolving Fund as of September 30, 1983, was $120 million. While this figure is an increase from the $74 million balance on September 30, 1982, it was necessary to transfer $300 million from the direct loan revolving fund to the Loan Guaranty Revolving Fund during Fiscal Year 1983. To return capital to this fund, we also sold $759 million in loans netting $684 million to the revolving fund during Fiscal Year 1983. As can be seen, while a substantial sum of money has been added to the Loan Guaranty Revolving Fund through either sale of assets or direct loan revolving fund transfers, the fund remains seriously depleted. An additional $100 million has been transferred this month from the direct loan revolving fund to the Loan Guaranty Revolving Fund, and we expect to transfer another $100 million shortly.

The unobligated balance in the Direct Loan Revolving Fund has decreased from $367 million on September 30, 1982, to $223 million on September 30, 1983. To return capital to the direct

loan revolving fund $101 million in direct loans were sold netting $78.5 million to this fund during Fiscal Year 1983. The recent transfer of $100 million from this fund and an expected additional $100 million transfer in the near future will also deplete the direct loan revolving fund to a low level.

Mr. Chairman, the problem with the funding of the Loan Guaranty Revolving Fund is primarily a result of a continuing high rate of loan defaults and loan foreclosures, notwithstanding our efforts to assist delinquent borrowers through supplemental servicing.

Although the holder of a GI loan has the primary responsibility for servicing loans in default, it is VA policy that no guaranteed loan should be foreclosed or otherwise terminated unless such action is justified. Whenever a default is reported to VA, VA attempts to contact the borrowers--by letter, wire, telephone or face-to-face--to discuss the reason for the default and to determine whether there is a realistic possibility for the account to be reinstated. When the occasion warrants, VA will provide financial counseling and intercede on the borrower's behalf with the holder to help arrange a repayment program.

Just last month we held a meeting at our Central Office in Washington with representatives of the 17 VA Regional Offices having the largest number of foreclosures. Our Chief Benefits Director, Dorothy L. Starbuck; The Assistant General Counsel, James P. Kane; Mr. Brodie and I emphasized to those in attendance the importance of doing everything possible for veteran borrowers in financial difficulty to help them to avoid foreclosures.

Although the number of defaults and claims were sizable during Fiscal Year 1983, 85 percent of the loans reported as being in default were brought current; many of these through the efforts of VA loan service representatives at our Regional Offices. Nevertheless we must note that currently over 87,000 VA guaranteed home loans are reported as being in default, an increase of 13.5 percent over the number of defaults pending on September 30, 1982. Our past experience leads us to be confident that the overwhelming majority of these defaulted loans will be brought current and foreclosure will be avoided. However, if the number of reported defaults continues to increase, there will be an increasing number of foreclosures, and we will be expected to pay an increasing number of claims. VA paid 21,545 claims in the Fiscal Year 1983.

Should the continued high number of claim payments continue, it appears that an appropriation request may be necessary in the future to assure the continued solvency of the Loan Guaranty Revolving Fund. On the other hand, should the strong signs of economic recovery continue, we may well see a decrease in claims, and thus an alleviation of our present funding difficulties.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you or Members of the Subcommittee may have.

Department of Veterans Benefits Washington D C 20420

Veterans Administration

SEP 22 1983

SEP 19 1983

In Reply Refer To: 265

Honorable G. V. (Sonny) Montgomery
Chairman
Committee on Veterans Affairs
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your letter of August 23 requesting specific information on the Veterans Administration's Home Loan Guaranty Program and the source of funding it will require.

To supplement the income from loan sales and receipts from vendee accounts, the Direct Loan Revolving Fund has transferred, since 1978, $1,150,000,000 to help meet the increasing property acquisition expenses of the Loan Guaranty Revolving Fund. As a result of these transfers and those planned for the future, an appropriation request will be needed in the not too distant future. However, the Agency will request the funds in the Loan Guaranty Revolving Fund and not the Direct Loan Revolving Fund as suggested by the Congressional Budget Office. Under current procedures which limit direct loans to Specially Adapted Housing cases, the Direct Loan Revolving Fund would have sufficient reserves to meet these commitments.

Attached are three lists of Loans Available for Sale as of July 29, 1983. Attachment A represents the availability of Loan Guaranty Vendee Accounts, Attachment B the availability of Direct Loans and Attachment C the availability of Direct Loan Vendee Accounts. Although we do not have available the ages of loans, as you requested, the average remaining life of loans in each interest rate category is shown on the above described lists. In a large majority of loans closed, Direct Loans were for 25 year terms while vendee loans were made for 30 year terms.

For loans not available for sale, we do not have a distribution by specific reasons for unavailability. However, we are attaching reports for the quarter ending June 30, 1983, (Attachments D, E, and F) showing those groups of loans that are not available for sale because of being in default or having a bad pay record (columns D & E), and those not saleable for other miscellaneous causes, such as low balances, accounting or document problems, etc. (columns F & G).

Attachment D is the Quarterly Report on Outstanding Vendee Accounts, Loan Guaranty Program, Attachment E is the Quarterly Report on Outstanding Direct Loans, and Attachment F is the Quarterly Report on Outstanding Vendee Accounts, Direct Loan Program.

The numbers of VA-held vendee loans foreclosed each year from FY 1974-1983 are as follows:

1974	2,872	
1975	2,455	
1976	3,037	
Transition Quarter	624	(July, August, September 1976)
1977	2,990	
1978	2,202	
1979	1,631	
1980	1,520	
1981	1,551	
1982	1,698	
1983	1,423	(Through July 31, 1983)

The average Administrative costs to terminate loans in FY 1983 to date was $134 for guaranteed loans and $60 for portfolio loans. This includes salaries and benefits for Loan Guaranty and Finance Division personnel.

All VA foreclosure appraisals are reviewed by VA staff personnel. In addition, when there is an indicated loss in value of 20 percent or more below the original valuation, a staff field inspection must, in each instance, be made prior to the final determination of current market value.

Listed below are the guaranteed loan defaults pending as of the end of each month for the period FY 1978 through the first 10 months of FY 1983.

TOTAL GI LOAN DEFAULTS PENDING EOM

	FY '78	FY '79	FY '80	FY '81	FY '82	FY '83
OCT	46,729	49,430	48,911	60,921	66,262	85,004
NOV	46,673	50,155	48,969	63,275	70,416	86,977
DEC	47,809	49,864	49,283	64,893	71,751	88,702
JAN	49,418	51,307	52,495	67,431	74,796	91,894
FEB	50,109	51,734	54,005	68,973	79,022	94,969
MAR	50,973	52,202	56,842	70,773	82,318	97,660
APR	49,880	50,238	55,252	68,701	79,620	96,139
MAY	48,209	47,908	54,087	66,511	77,290	95,626
JUN	46,749	45,660	53,746	63,944	77,112	93,533
JUL	46,969	45,532	55,212	63,730	78,196	93,035
AUG	47,293	45,927	56,230	63,940	79,784	
SEP	47,916	47,056	58,784	65,149	81,948	

I will be pleased to provide any additional information that you may need.

Sincerely yours,

Dorothy L. Starbuck

DOROTHY L. STARBUCK
Chief Benefits Director

ATTACHMENT A

AVAILABLE FOR SALE
VA L.G. VENDEE ACCOUNTS @ 7-29-83

Rate	No.	P/Bal	Average Remaining Life Years	Months
3.00	6	$46,404	17	6
4.00	7	45,236	20	
4.50	35	279,202	19	9
4.75	4	14,908	5	11
5.00	69	274,203	5	9
5.25	2,055	12,624,483	10	11
5.50	4,459	27,519,231	10	9
5.75	797	5,220,212	10	8
6.00	1,935	14,405,494	13	3
6.25	91	881,302	13	3
6.50	59	441,525	13	2
6.75	1,217	10,706,703	14	7
7.00	171	1,392,956	14	1
7.25	25	239,390	13	4
7.50	1,077	13,252,517	17	5
7.75	35	464,465	18	8
8.00	611	7,828,534	18	2
8.25	351	5,377,601	20	6
8.50	765	15,317,219	22	6
8.75	302	5,197,805	20	8
9.00	515	10,449,020	23	2
9.50	818	22,830,330	25	11
10.00	336	13,352,445	29	6
10.50	401	13,583,411	28	5
11.00	327	11,828,274	29	7
11.50	2,345	93,702,432	29	2
12.00	1,696	70,140,093	29	2
12.50	38	1,519,434	28	2
13.00	25	814,124	27	2
13.50	59	1,804,855	27	2
14.00	33	882,034	27	7
14.50	12	451,592	27	2
15.00	10	334,273	28	8
15.50	64	1,794,621	26	7
	7	288,811	28	4
TOTAL	20,757	$439,157,237		

ATTACHMENT B

AVAILABLE FOR SALE
VA DIRECT LOANS @ 7-29-83

Rate	No.	P/Bal	Average Remaining Life Years	Months
3.00	-	-	-	-
4.00	-	-	-	-
4.50	6	$26,692	4	3
4.75	518	1,966,239	5	8
5.00	-	-	-	-
5.25	11,093	53,447,248	7	2
5.50	114	698,508	8	10
5.75	1,245	8,373,830	9	2
6.00	1,286	9,391,958	9	11
6.25	-	-	-	-
6.50	-	-	-	-
6.75	350	2,770,809	10	9
7.00	289	3,604,819	14	10
7.25	-	-	-	-
7.50	236	2,101,713	11	11
7.75	145	1,894,875	14	11
8.00	781	16,218,974	18	2
8.25	67	910,079	15	8
8.50	1,263	28,383,370	18	9
8.75	337	7,530,363	19	-
9.00	217	4,701,546	18	7
9.50	801	19,239,649	19	8
10.00	468	12,232,237	21	-
10.50	103	2,717,684	21	3
11.00	-	-	-	-
11.50	413	10,736,164	21	7
12.00	55	1,361,486	21	10
12.50	-	-	-	-
13.00	44	1,159,157	21	10
13.50	-	-	-	-
14.00	-	-	-	-
14.50	-	-	-	-
15.00	-	-	-	-
15.50	2	65,522	23	5
	-	-	-	-
TOTAL	19,833	$189,532,922		

ATTACHMENT C

AVAILABLE FOR SALE

DL VENDEE ACCOUNTS @ 7-29-83

Rate	No.	P/Bal	Average Remaining Life Years	Months
3.00	1	$5,169	7	5
4.00	2	15,105	18	-
4.50	-	-	-	-
4.75	-	-	-	-
5.00	1	3,405	5	9
5.25	258	809,206	10	10
5.50	440	2,366,927	10	5
5.75	95	552,891	10	7
6.00	400	2,589,646	12	10
6.25	4	20,620	9	7
6.50	3	16,676	11	4
6.75	116	780,018	13	8
7.00	16	98,655	14	8
7.25	-	-	-	-
7.50	78	592,824	15	1
7.75	1	10,405	19	5
8.00	93	790,342	18	-
8.25	9	70,001	20	10
8.50	120	1,219,560	19	-
8.75	9	90,694	20	-
9.00	43	566,368	21	3
9.50	48	773,463	24	-
10.00	-	-	-	-
10.50	1	15,893	29	11
11.00	-	-	-	-
11.50	16	384,408	28	8
12.00	41	974,125	27	3
12.50	4	100,539	29	4
13.00	3	44,981	27	4
13.50	6	98,293	27	4
14.00	10	205,616	29	-
14.50	5	121,582	28	-
15.00	-	-	-	-
15.50	16	386,368	27	7
16.50	2	43,651	28	4
	1,841	$13,747,431		

ATTACHMENT D

QUARTERLY REPORT ON OUTSTANDING VETERAN ACCOUNTS - LOAN GUARANTY PROGRAM — REA-TRUST ACCOUNTS — QUARTER ENDING 06-30-82

U. S. TOTALS — MCS 26-36 — CCIA SES 20-02

TYPE OF INSTRUMENT AND % INTEREST	TOTAL NO.	OUTSTANDING PRIN.BAL	NOT AVAILABLE LOANS IN DEFAULT OR BAD PAY RECOUND NO.	PRIN.BAL	FOR SALE NLT SALEABLE FOR CAUSE * NO.	PRIN.BAL	SALES OFFER ACCPT NO.	SALES RESERV MADE NO.	REMAINDER AVAILABLE FOR SALE INCL NEW LOANS NO.	PRIN.BAL	NEW LOANS THIS QUARTER OUTSTANDING NO.	PRIN.BAL
	A	B	C	D	E	F	G	H	I	J	K	L
TOTAL	MTGS & CCA											
3.00	60	375,253	18	117,046	5	14,128			39	244,118		
4.00	20	127,133	6	37,308	1	7,866			13	81,960		
4.50	54	434,041	16	131,638	1	7,941			37	294,462		
4.75	18	29,334	3	8,368	11	5,556			4	15,010		
5.00	253	618,035	51	136,131	131	280,328			71	203,887		
5.25	3461	21,001,079	725	4,284,544	283	540,611			2473	16,169,924		
5.50	6330	36,011,805	1072	6,076,633	707	1,704,754			4551	28,230,118		
5.75	1408	7,335,804	257	1,570,646	137	375,409			814	5,389,449		
6.00	2727	20,118,632	580	4,312,769	207	826,526			2000	14,031,540		
6.25	120	1,125,245	19	142,059	9	71,104			92	892,082		
6.50	80	568,135	14	82,620	3	6,193			63	479,922		
6.75	1784	15,782,291	463	4,320,907	71	406,626			1250	11,054,758		
7.00	270	2,214,255	80	661,612	15	99,045			175	1,452,089		
7.25	26	245,472	1	9,043					25	240,429		
7.50	2352	26,879,021	1134	14,059,925	116	1,281,615			1126	13,665,481		
7.75	39	456,951	2	16,048	2	15,416			35	445,487		
8.00	1297	16,602,214	596	7,817,320	63	746,124			638	8,038,771		
8.25	645	5,802,263	276	4,374,443	17	144,678			352	5,283,142		
8.50	4288	80,029,997	3105	59,363,512	273	4,700,974			902	15,743,510		
8.75	504	8,454,564	177	3,021,757	19	196,478			308	5,236,728		
9.00	2752	52,175,769	1985	39,117,815	158	2,050,908			609	10,987,046		
9.25	1	15,211	1	19,211								
9.50	4635	108,241,735	3324	80,290,793	268	6,346,208			843	19,604,734	118	6,580,124
9.75	1	32,865			1	32,589						
10.00	411	15,831,871	45	1,678,059	27	526,907			335	13,228,605	140	5,225,153
10.50	527	18,277,555	152	3,729,727	113	4,581,724			262	9,566,103	223	8,129,351
11.00	332	12,276,870	8	161,768	36	1,688,910			288	10,280,192	232	8,129,316
11.50	2153	80,026,642	295	7,664,347	613	24,809,242			1245	47,552,983	1552	65,854,340
12.00	3601	130,058,871	1367	42,033,176	403	16,155,292			1831	71,830,486	1248	61,820,524
12.50	250	8,851,209	141	5,740,252	49	1,570,876			60	1,634,081		
13.00	438	11,964,525	364	10,341,324	24	711,419			50	912,102	1	21,800
13.50	833	23,381,449	615	18,213,284	88	2,849,990			97	2,318,174		
14.00	955	13,251,777	258	10,977,122	19	1,155,158			58	1,159,493		
14.50	160	4,500,102	136	3,784,492	8	244,620			16	470,585		
15.00	73	2,208,472	40	1,360,878	7	169,082			26	638,112		
15.50	1537	43,708,463	1210	37,361,105	55	2,405,395			232	4,001,963		
16.50	134	3,662,622	105	3,085,258	7	138,679			22	438,685		
GRAND TOTAL	43684	775,100,819	18745	376,743,176	4001	77,241,505			20940	321,896,034	8546	148,092,718

(COMPOSITE) AVERAGE INTEREST RATE .10106

*NLT SALEABLE -- LOW BALANCE, ACCTNG OR DOCUMENT PROBLEM, MODIFIED, UNINSURED, NOT DIRECT MONTHLY PAY, NCT EST REHA, ETC.

ATTACHMENT E

QUARTERLY REPORT ON OUTSTANDING DIRECT LOANS — REM-TRUST ACCOUNTS — QUARTER ENDING 06-30-83

U.S. TOTAL — ACCT 86-23 — CCCA 863 21-61

CLASS OF LOAN AND % INTEREST	TOTAL NO.	TOTAL OUTSTANDING PRIN.BAL	NOT AVAILABLE FOR SALE LOANS IN DEFAULT OR BAD PAY RECORD NO.	PRIN.BAL	FOR SALE NOT SALEABLE FOR CAUSE* NO.	PRIN.BAL	SALES OFFER RESERV ACCEPT NO.	RESERV MADE NO.	REMAINING AVAILABLE FOR SALE INCL NEW LOANS NO.	PRIN.BAL	NEW LOANS THIS QUARTER OUTSTANDING NO.	PRIN.BAL
A	B	C	D	E	F	G	H	I	J	K	L	M
4 0/8	7	3,259	4	2,483	3	776						
4 4/8	815	1,176,672	106	142,726	701	1,000,207			8	32,938		
4 6/8	3675	4,036,282	404	535,980	2736	2,256,960			535	2,044,342		
5 2/8	25360	86,652,451	3153	11,403,179	10823	20,293,960			11344	56,665,312		
5 4/8	153	835,742	14	83,053	27	57,340			112	665,346		
5 6/8	1610	5,526,685	122	777,106	256	668,160			1256	8,481,223		
6 0/8	1868	12,801,898	275	1,874,263	314	1,407,252			1299	9,520,383		
6 6/8	660	4,857,564	171	1,328,044	137	775,199			352	2,754,321		
7 0/8	570	6,130,179	85	878,677	157	1,636,589			288	3,614,913		
7 4/8	475	4,067,785	136	1,241,737	109	753,529			234	2,652,516		
7 6/8	195	2,479,582	24	292,031	18	184,505			153	2,003,042		
8 0/8	1158	22,254,424	198	3,682,226	168	2,243,606			820	16,328,731		
8 2/8	142	1,758,134	36	481,257	34	331,310			72	946,528		
8 4/8	1925	35,178,087	366	6,987,802	231	3,127,015			1334	25,063,270		
8 6/8	495	10,325,615	100	2,028,604	32	423,765			363	7,873,250		
9 0/8	347	6,825,522	73	1,464,516	34	425,158			240	4,636,216		
9 2/8	1	20,561			1	20,551						
9 4/8	1118	26,156,896	204	4,725,760	75	1,536,626			841	18,892,710		
10 0/8	635	16,214,116	109	2,733,442	40	873,992			486	12,607,382		
10 6/8	142	3,610,187	23	551,618	11	277,848			108	2,780,921		
11 4/8	585	14,880,402	114	2,555,195	36	733,518			435	11,181,684		
12 0/8	102	2,581,104	26	630,586	14	400,621			62	1,540,917	2	52,835
13 0/8	72	1,834,711	17	432,800	9	203,522			46	1,198,388		
13 4/8	8	218,215			7	223,176			1	15,441		
14 0/8	6	156,474			6	156,474						
15 0/8	6	47,034			6	47,034						
15 4/8	22	606,332	1	27,475	13	333,724			8	243,133		
16 4/8	2	61,519			2	61,519						
17 4/8	1	11,185							1	11,185		
FULLY DISP NOT CLOSED	2	46,080										
CLOSED NOT FULLY DISP	22	252,658										
TOTAL	42227	280,552,729	5797	45,065,353	16010	40,494,234			20396	195,124,494	2	52,735

AVERAGE INTEREST RATE .059640

*NOT SALEABLE —LOW BALANCE, ACCTNG OR DOCUMENT PROBLEM, MODIFIED, UNINSURED, NOT DIRECT MONTHLY PAY, NOT 1ST LIEN, ETC.

ATTACHMENT A

QUARTERLY REPORT ON OUTSTANDING VENDEE ACCOUNTS - DIRECT LOAN PROGRAM . NON-TRUST ACCOUNTS QUARTER ENDING 06-30-83

U. S. TOTALS . . . . . HCS 26-36 CRIN PLS 40-81

TYPE OF INSTRUMENT AND % INTEREST	TOTAL NO.	OUTSTANDING PRIN.BAL	NET AVAILABLE LOANS IN DEFAULT OR BAD PAY RECORD NO.	PRIN.BAL	FOR SALE NOT SALEABLE FOR CAUSE * NO.	PRIN.BAL	SALES OFFER ACCPT NO.	RESERV MADE NO.	REMAINDER AVAILABLE FOR SALE INCL NEW LOANS NO.	PRIN.BAL	NEW LOANS THIS QUARTER OUTSTANDING NO.	PRIN.BAL
A	B	C	D	E	F	G	H	I	J	K	L	M
TOTAL	MTGS & CON											
3.00	13	118,044	3	25,911					10	92,133		
4.00	2	15,184	1	5,423					1	9,781		
5.00	16	27,857	4	6,854	12	14,536			2	6,477		
5.25	287	1,150,366	35	160,032	82	157,177			166	873,188		
5.50	779	3,253,343	111	410,168	216	408,602			452	2,434,574		
5.75	140	650,841	12	55,675	32	76,792			96	568,374		
6.00	593	3,367,254	77	458,863	109	253,823			407	2,654,568		
6.25	11	41,864	3	13,955	4	6,856			4	20,783		
6.50	10	74,359	4	55,278	1	1,857			1	16,744		
6.75	152	543,564	20	113,506	15	40,993			117	709,465		
7.00	19	113,713	1	8,455	1	1,342			17	103,917		
7.50	140	554,758	38	271,219	21	86,472			83	637,066		
7.75	1	10,635							1	10,635		
8.00	126	1,034,578	27	208,937	8	38,552			93	787,088		
8.25	14	106,767	3	25,860	2	10,703			9	70,203		
8.50	177	1,664,307	37	326,325	18	99,360			122	1,238,422		
8.75	14	141,229	4	40,931	1	10,864			9	89,434		
9.00	56	651,137	7	94,399	2	2,094			47	694,645		
9.50	50	831,540	6	83,762	1	1,101			49	866,736		
10.50	2	22,937			1	7,043			1	15,864	1	16,454
11.50	20	438,057	3	72,161	6	118,174			11	247,561	14	269,448
12.00	51	1,148,920	6	157,033	6	107,283			39	884,604	18	302,642
12.25	1	16,546	1	16,546								
12.50	5	129,955			1	29,405			4	100,581		
13.00	5	59,705							5	59,705		
13.50	10	167,139	4	68,060					6	88,475		
14.00	12	220,422			1	9,834			11	210,588		
14.50	6	161,361	1	39,755					5	121,606		
15.50	25	576,452	7	153,758					18	422,694		
16.50	5	116,620	1	23,352					4	93,268		
GRAND TOTAL	2752	18,369,485	420	2,857,255	540	1,483,264			1792	13,688,642	28	588,363

(COMPOSITE) AVERAGE INTEREST RATE .07755

*NOT SALEABLE -- LOW BALANCE, ACCTNG OR DOCUMENT PROBLEM, MODIFIED, UNINSURED, NOT DIRECT MONTHLY PAY, NOT 1ST LIEN, ETC.

Office of General Counsel Washington D.C. 20420

Veterans Administration

DEC 14 1983

In Reply Refer To: 021:HAC

Honorable Richard Shelby
Chairman, Subcommittee on Housing
and Memorial Affairs
Committee on Veterans' Affairs
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I am pleased to provide the additional information requested by your letter of November 15, 1983, for the record of the October 27, 1983, loan guaranty oversight hearing.

To date, in Fiscal Year 1984 VA has conducted two vendee loan sales which added almost $309 million to the loan guaranty revolving fund. This is in addition to the $100 million transferred from the direct loan revolving fund in October of this year. Additional loan sales and another $100 million transfer are planned during Fiscal Year 1984. At this time it would be premature to speculate as to whether or not additional funds will be necessary to meet program obligations for the current fiscal year.

The President will submit his budget for Fiscal Year 1985 to the Congress in January 1984. Since the details of the Fiscal Year 1985 budget are still being formulated, it is too early to assess the impact of any need for appropriations on the program.

According to our regional office in Honolulu, Hawaii, foreclosure costs in that State generally run between approximately $3,100 and $3,800. The specific costs are as follows: attorney fees, $800 to $1,500; advertising, $144; recording fees, $41, title search, $78; master's fee, $40; and commissioner's fee, $2,000.

If we may be of any additional assistance, please advise us.

Sincerely yours,

John P. Murphy

JOHN P. MURPHY
General Counsel

1125 Fifteenth Street, N.W.
Washington, D.C. 20005
202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

RONNIE J. WYNN

PRESIDENT
COLONIAL MORTGAGE CORPORATION
MONTGOMERY, ALABAMA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

of the

COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Oversight Hearings on

The Veterans Administration Home Loan Guaranty Program

October 27, 1983

Mr. Chairman and Members of the Subcommittee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Corporation, a mortgage banking firm headquartered in Montgomery, Alabama. I appear before you today on behalf of the Mortgage Bankers Association of America.* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and Charles H. Fritts, MBA's Associate Legislative Counsel. We appreciate the opportunity to testify on the Veterans Administration (VA) home loan guaranty program.

MBA believes that the home loan guaranty program is an excellent one, that it has served the Nation's veterans well, and that the VA has operated it excellently.

We are concerned, however, about the status of the Loan Guaranty Revolving Fund. According to recent reports, an unusually high level of claims has, for the first time in many years, raised the need to replenish the fund. In this connection, as we pointed out in earlier testimony before the Subcommittee, we believe that the funding fee charged veteran borrowers should be allocated to the VA for use in maintaining the revolving fund, rather than to the general revenue fund of the Department of the Treasury. The funding fee required of a veteran should not be viewed as a general revenue raising proposal, but should be targeted to the operation of the VA programs in a manner similar

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- o Mortgage Banking Companies
- o Mortgage Insurance Companies
- o Life Insurance Companies
- o Commercial Banks
- o Mutual Savings Banks
- o Savings and Loan Associations
- o Pension Funds
- o Mortgage Brokers
- o Title Companies
- o State Housing Agencies
- o Investment Bankers
- o Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500

28-483 O - 84 - 6

to the way the Federal Housing Administration (FHA) mortgage insurance premium is directed to the operation of the FHA home loan mortgage insurance program.

We also would like to reiterate our support of current legislative proposals to include certain manufactured housing within the regular home loan guaranty program and to provide for a free VA interest rate. We also urge the VA to adopt procedures that would improve the Automatic Guaranty Program.

VA HOME LOAN GUARANTY PROGRAM

Mortgage bankers have always been heavily involved in the VA home loan guaranty program. During the last decade, mortgage bankers originated approximately 76 percent of all VA-guaranteed loans. The VA home loan guaranty program is one of the most successful housing programs in this Nation's history. Approximately 11 million veterans have been housed with VA-guaranteed loans. In FY 1982, 92,930 new loans were guaranteed and in FY 1983, the volume rose to 231,620.

Despite the size of the program, it has cost the Federal government very little. Claims are paid from a revolving loan guaranty fund that has been replenished by income generated from past loan and property sales without requiring appropriations. The program has been self-supporting since its inception in the 1940s. However, due to the recent recession, high interest rates, and the resultant increase in foreclosures, the Revolving Fund is currently not able to support itself. During this calendar year, it has been necessary for the VA to transfer $400 million to the Loan Guaranty Revolving Fund from the Direct Loan Fund and to sell $759 million in loans to generate capital for the Fund.

We believe that the Revolving Fund's troubles are temporary and that the VA will be able to rectify the situation as the economy improves. MBA's most recent data (National Delinquency Survey, MBA Economics Department, August 22, 1983) indicates that the VA foreclosure rate has declined from the last quarter.

We hope that, as the economy recovers, the Loan Guaranty Revolving Fund will be able to work its way out of its present difficulties. Because the VA Home Loan Guaranty Program is an entitlement program, we urge Congress to be prepared to appropriate the necessary funds to keep the Revolving Fund solvent in the event it is necessary to do so, or to allow the VA, on a short term basis, to borrow the necessary funds from the Treasury.

As pointed out earlier, MBA, in previous testimony, questioned the appropriateness of charging a veteran a fee for use of a Congressionally determined entitlement program. However, if a fee is charged, it should be applied directly to defray expenses attached to program administration, similar to the treatment of user-fees under the non-subsidized FHA mortgage insurance programs, rather than be treated as general revenues of the Treasury. Assuming the funding fee will remain in place, we urge Congress to direct that the funding fee that is collected be dedicated to the VA Revolving Loan Guaranty Fund.

VA Manufactured Home Program

The House has passed HR 2948, the "Veterans' Housing Benefits Amendments of 1983." One of the provisions of this legislation would authorize the VA to guarantee financing of the purchase of a double-wide manufactured home and lot under its regular loan guaranty program (38 U.S.C. 1810). MBA supports this provision of HR 2948. This provision is also in S 1388, the "Veterans' Disability Compensation and Survivors' Benefits Amendments of

1983," which is awaiting floor action by the Senate. Currently, all manufactured home loan guaranties are restricted to the manufactured home lending program authorized by 38 U.S.C. 1819. Current mortgage amount limitations for loans to purchase a double-wide with lot should also be lifted, making it possible for a veteran to finance a manufactured home and lot in the same manner as if it were a conventionally built home. The term for repayment of the loan should also be increased, making it possible for a veteran to arrange a 30-year mortgage on the property.

The FHA has adopted this change with its combination manufactured home/lot loan, and has a program in place to insure these loans under Title II. A secondary market is already in place for combination loans via Government National Mortgage Association (GNMA) pools and Federal National Mortgage Association (FNMA) purchase programs.

VA manufactured homes are built to Title VI standards, as is manufactured housing insured by the FHA Title I program. Builders, developers, lenders, and borrowers have realized that double-wide manufactured homes, when placed on a developed site, are comparable with conventionally built housing in terms of quality of construction, amenities, and visual appearance. Consequently, there should be no difference in the way in which they are financed or their financing is guaranteed.

Free VA Interest Rate

Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. In the early 1950s, Congress enacted legislation to fix interest rates and to ban discount points. The result was a collapse of the FHA/VA portion of the mortgage market, and the law was repealed.

The setting of a maximum interest rate by the VA Administrator harkens back to an earlier era in America's financial history when residential mortgage markets were highly localized and sometimes dominated by a few suppliers of mortgage credit. Possibility for abuse existed, and the Federal government, in the FHA and VA mortgage insurance and guaranty programs, acted in a fashion similar to state governments and set maximum interest rate ceilings. This Federal and state system of interest/usury ceilings was not a problem as long as interest rate changes occurred infrequently, and in small increments. However, the volatility of interest rates in the latter part of the 1970s and early 1980s has turned this restrictive system of interest rate limitations into a hangman's noose around the neck of the housing and mortgage finance industries.

Congress recognized this, at least as far as state mortgage usury ceilings were concerned, and preempted those laws as part of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221). MBA believes the time has arrived for Congress to complete the task of reforming the law by repealing all restrictions on interest rates for FHA and VA mortgages. It is interesting to note that both the House-passed version of the 1983 Housing bill (HR 1), as well as the version reported out by the Senate Banking Committee (S 1338), provide for a free FHA rate.

The Federal preemption of state usury ceilings has been in force for three years and the period during which states could re-assert their authority to be involved with mortgage loan rate regulations has expired. Only 15 states and Puerto Rico expressed a continued desire to monitor interest rates by overriding the preemption. To date, there have been no widely reported and documented instances of abuse or charges of substantially above-market interest rates by mortgage lenders. The market forces of supply and demand, together with the national linkage of all local mortgage markets, ensure that no single lender or group of lenders in any locality or region can demand and receive mortgage

interest rates above the market rate. The FHA and VA loan programs should recognize this fact. We urge Congress to provide that the interest rate on all VA-guaranteed loans be negotiated between the veteran-borrower and the lender.

Automatic Guaranty Program

There are certain features in the Automatic Guaranty Program that need adjustment to improve its operation. We anticipate that the VA will continue to show a concern for program efficiency and we hope the VA will amend its regulations to improve these aspects of the program. For example, VA requires that 50 percent of a lender's VA business must be processed under the Automatic Guaranty Program. Yet there are obstacles to the use of the Automatic Guaranty Program, such as the requirements that lenders process applications at the lender's central or regional headquarters rather than in the local branch office, and that no lender-employed appraisers may provide the required property appraisal. Branch office processing and staff appraising are both allowed in the new program of delegated underwriting, called Direct Endorsement, which the Department of Housing and Urban Development (HUD) has implemented in its FHA insurance programs.

We hope the VA will allow lenders to hire part- or full-time appraisers or to contract with appraisers to conduct appraisals in return for lenders assuming the responsibility for such appraisals. We do not feel that lenders should be given such responsibility unless the appraisers are in the lender's employ. It has been the experience of many of our members that the obtaining of the appraisal is often the greatest source of delay in the processing of VA loans.

VA Staffing Requirements

Finally, we would like to bring to your attention the matter of adequate staffing at the VA. The volume of home loan guaranty activity at VA in 1983 was very high. It was more than double the activity levels in 1982. We expect the level of activity in 1984 to be equal, if not higher. During the peak periods in 1983, the VA was under a heavy strain to process the applications. Several offices fell behind schedule, particularly in Florida, Texas, New Jersey, and New York.

MBA respectfully urges Congress to monitor the personnel requirements at VA and its field offices to ensure that there are sufficient levels of VA field office employees in order that the services VA provides will be continually available to the veteran in a timely manner.

We appreciate the opportunity to present this testimony and would be happy to furnish any additional desired information.

1125 15th Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

Glen S. Corso
Staff Vice President
Government Agency Relations
(202) 861-6534

May 16, 1983

Mr. J. Peter Grace
Chairman
President's Private Sector Survey on
Cost Control
1850 K Street, N.W.
Suite 1150
Washington, D. C. 20006

Dear Mr. Grace:

The Mortgage Bankers Association of America (MBA) would like to take this opportunity to comment on the President's Private Sector Survey on Cost Control's Task Force Report on the Veterans Administration (VA). We will restrict our comments to the section of the report dealing with foreclosure options. This section of the report suggests that the VA should not continue to acquire title to properties financed through its guaranteed loan program that are terminated through foreclosure.

The object of the VA Home Loan Guaranty Program is to facilitate the extension of mortgage credit on favorable terms by private lenders to eligible veterans for the purchase, construction repair, or refinancing of homes to be occupied by veterans. Since the inception of the program, VA has extended more than $204 billion to veterans for home purchases. Over 11 million mortgage loans have been made under the program. In 1982, nearly 82 percent of all VA guaranteed home loans were originated by mortgage bankers.

Unlike any other mortgage program, either Federally-insured or conventional, the VA home loan program allows eligible borrowers to receive up to a 100 percent (no down payment) mortgage. Lenders are willing to operate under the program because of the VA loan guaranty. A VA loan guaranty is actually a partial guaranty against loss. Currently, the maximum VA guaranty is the lesser of $27,000 or 60 percent of the loan amount. The lender remains liable for the excess of the loss over the guaranteed amount. In the event of default, VA has the option to pay the holder of the loan the guaranteed portion of the loan or provide a bid price and accept title to the property at that bid price. As the Task Force Report points out, the VA almost always takes the second option and acquires title to the property.

The Report assumes that if the VA did not acquire the property, someone else would at approximately the same price level (Task Force Report, see p. 41). This is a false assumption. The Report itself indicates that less than five percent of VA properties sold at foreclosure sale are acquired by third parties.

Statistics obtained from the VA and submitted to Congress in VA's fiscal year 1984 budget submission show that it would cost the VA much more to pay the guaranty amount than to acquire the property. The Report states (p. 42) that under the current system of acquiring properties, the VA average loss is $6,700 per unit. The VA budget statistics state that in fiscal year 1982, if VA had acquired no foreclosed properties and instead had paid the guaranty claim, losses to VA would have averaged $16,675 per unit. Additionally, this same source reported that for fiscal year 1982, the average loss per property was $4,300, not $6,700 as stated by the Task Force. We would suggest that the Task Force reevaluate these numbers and consider the cost to VA of paying the guaranty amount before making its recommendation.

The Report further states (p. 43) that the Federal National Mortgage Association (FNMA) recently changed its pricing philosophy to discourage lenders from selling them VA loans because FNMA questions the quality of underwriting VA loans used by the industry. The statement in regard to FNMA's policy is incorrect. FNMA's change in policy regarding the purchase of VA loans in no way reflects its attitude about the quality of VA loans. As investors, FNMA was always 100 percent protected by the VA loan guarantee and VA title acquisition policy. FNMA's decision not to purchase VA loans reflects that Association's wish not to purchase any assumable home mortgage loans--it has nothing to do with the quality of VA loans.

The Report is correct when it states (p. 42) that because the indemnification provided by VA's policy of acquiring properties at foreclosure, the lending community is able to offer borrowers more competitive terms under the VA home loan program. A change in this policy would mean less indemnification to lenders and would surely result in less availability of the VA home loan program to veterans.

The Report states (p. 42) that when the VA establishes its bid price for properties it does not include the costs to the VA for acquisition, sales expenses, and property management while the VA holds the property. In January, 1983, the VA changed its policy to include these costs in establishing bid prices.

The last point we would like to address with this section of the Report is the comparison between the operations of the private mortgage insurance (PMI) industry and the VA. The Report ignores the fact that PMIs provide protection for up to 20 to 25 percent of the total claim, while VA's guaranty amount, the lesser of 60 percent of loan amount or $27,000, is much greater. PMI's lesser exposure provides more incentive to pay the claim when a property goes into foreclosure.

The Task Force also has recommended that the VA schedule portfolio loan sales at regular intervals and that the VA act as an issuer of securities. MBA agrees with this recommendation that would allow the VA sufficient flexibility to take advantage of market conditions in the best interests of the solvency of the VA home guaranty loan program.

We appreciate this opportunity to comment and hope the Task Force will reconsider its recommendation on the VA's policy of acquiring properties at foreclosure sales on guaranteed loans.

Sincerely,

Glen S. Corso

Glen S. Corso
Staff Vice President

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President and Legislative Counsel

202-861-6507

November 7, 1983

The Honorable Richard C. Shelby
Chairman
Subcommittee on Housing and
Memorial Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter is submitted in connection with the Subcommittee's hearings on October 27 and in response to your request, at page 33, for information about state laws that designate whether manufactured housing is considered personal property or real property, the attached chart is provided. Please note that the chart uses each state's property tax laws to distinguish between real and personal property. We are advised that a state's property tax laws may not always be consistent with that state's property laws. Therefore, a manufactured home may be considered personal property for tax purposes and real property for other purposes, and vice versa.

The enclosed tax chart provides a guide to each state's position. We would be happy to furnish any additional information if needed.

Sincerely,

Burton C. Wood

BCW:aml

Enclosure

690.022
N8m

MANUFACTURED HOMES:

Making Sense of a Housing Opportunity.

THOMAS E. NUTT-POWELL
MIT-Harvard Joint Center for Urban Studies

Auburn House Publishing Company
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Table 5–8 Taxation of MHs

State	Property Tax			Sales Tax	
	Personal	*Real*	*In Lieu*	*Original Sale*	*Subsequent Sale*
AL	If not affixed (20% FMV, 10% if owner-occupied)	If affixed*		1.5% state** plus registration	Vendor only
AK	If not affixed	If affixed*		0%–6% local, varies (median, 3%, 1978)	
AZ	If single-section *and* if not affixed	If multisection *and* If affixed* (from 1979)	Until 1978	4% state + local (on 60% of price)	None
AR	If not affixed	If affixed		3% state** + local	None
CA		If purchased after July '80	Before July 1980	6%–6.5% state and local; based on 60% if affixed & on 80% if not	Same
CO	If not affixed	If affixed (30% of value)		3% State; 0.5% local option; on 52% of price	None
CT	If not affixed	If affixed*		7% State; 7.5% July '80	Vendor or casual
DE	None (even if not affixed)	If affixed		2% document fee upon titling	2% retitling except if affixed
DC	Not applicable	Not applicable		None	None
FL	None	If affixed, choice: license or real property	License fee, by size	4% state** upon titling and register; $/size	Upon retitling or transfer of title; if affixed: deed tax

Table 5–8 (cont.)

State	Property Tax			Sales Tax	
	Personal	*Real*	*In Lieu*	*Original Sale*	*Subsequent Sale*
GA	If not affixed	If affixed*		3% state; 1% local (opt)	Vendor only; (transfer and recording tax if affixed)
HI		If affixed			
ID		All MHs		3% on 55% of purchase price	None
IL		If affixed	Privilege tax if not affixed	4% state; up to 2% local plus registration fee	Same, except if affixed
IN	If not affixed	If affixed		4% state	Vendor only
IO	If not affixed	If affixed		3% state plus registration fee	Vendor only
KS	If not affixed	If affixed*		3% state	Vendor and occasional
KY	If not affixed	If affixed	Excise tax on first registration	5% state	Vendor only
LA	None	If affixed		3% state** (titling) plus local tax	Upon retitling
ME		All MHs	Excise, if registered for road movement	5% state	None
MD	If not affixed	If affixed		5% state	5% upon retitle
MA	None	If affixed	Local $6–12/ month	5% state	Vendor only

MI	None	If affixed	$3/mo for MH in parks	4% state	None
MN	If not affixed or affixed but land not owned	If affixed*		4% state	Vendor only
MS	If not affixed	If affixed*		3% state on home; 5% on furnishings	None
MO	If not affixed	If affixed		3⅛% state** plus local	Vendor
MT	If not affixed	If affixed*		None	None
NE	If not affixed or not on owned land	If affixed		3% state**; up to 1% municipal use	Vendor only
NV	If not affixed	If affixed* (from 7/1/79)		2% state, 1% school, .5% local	Vendor only
NH	If not affixed	If affixed*		None	None
NJ		All MH (from 1979)	(until 1979)	5% state	5% state if affixed
NM		All MHs		Gross receipts and compensating tax 3.75% state and up to .75% local (optional)	Only MHs initially sold before 4/79
NY		All MHs		4% state plus local (up to 8% total)	Vendor and casual
NC	All MHs			2% state** plus local	Vendor only
ND	None	If affixed*	"Decal" for all MHs, except if on farm	None	None

Table 5–8 (cont.)

State	Property Tax			Sales Tax	
	Personal	*Real*	*In Lieu*	*Original Sale*	*Subsequent Sale*
OH			Privilege tax	4% state plus local option	Vendor and casual
OK	None	If affixed	$25 plus $.75/100 of value in excess of $1500, devalued 5% annually	2% excise tax in lieu of sales tax	Vendor or retitle
OR	*Ad valorem* on 100% true cash value	If affixed*		None	None
PA	(varies by county)			A realty transfer tax of 1% (state) and 1% (local, optional) is collected at sale/resale of MH classified as real property; if unaffixed then MH is subject to 6% state sales tax on any original and subsequent sales	
RI	If not affixed	If affixed		6% state**	Vendor only
SC	None	All MHs; 4% of FMV if owned; 6% if leased		4% state**	Vendor only
SD	None	If affixed	Decal, based on full market value	3% registry	No sales tax, but 3% registry fee if retitled
TN	None	On 25% FMV		4.5% state plus local up to 6% total	Vendor or retitle

TX	If not affixed	If affixed		4% state; 1% local plus transit tax	Vendor/casual
UT		All MHs		4% state, 3/4% local, 1/4% selected counties	Vendor only
VT		All MH		Vendor/contractor; 3% state	Vendor only; 3% state
VA	All MH			3% upon titling	3% upon retitling
WA	If not affixed	If affixed		5.1% to 5.3% (4.3% state; .5% local; .1–3% transit)	1% excise tax
WV	If not affixed or if affixed on non-owned land	If affixed*		3% state or 3% use tax**	Vendor only
WI	If not parking fee and does not meet 50% test	If assessable value of attachments, foundations, etc. = or exceeds 50% of value of the unit	Monthly parking fee (some municipalities in MH parks)	4% state**	At tir. of registration
WY	If not affixed	If affixed*		Vendor 3% state + up to 1% county (optional); (on 60% of invoice)	Same (depreciated invoice base)

SOURCE: Nutt-Powell, Thomas E., and Michael Furlong, with Christopher Pilkington. 1980. *The States and Manufactured Housing.* Cambridge, Mass.: Joint Center for Urban Studies, pp. 34–38.

* On owner-occupied land.

** Use tax also.

Statement of
Dan Winters, President
Southern Guaranty Corporation
and Chairperson of the
Retail Finance Committee of
The National Manufactured Housing Finance Association

October 27, 1983

Mr. Chairman and Members of the Subcommittee, my name is Dan Winters. I am President of Southern Guaranty Corporation of Winter Haven, Florida, a manufactured home lending company, and Chairperson of the Retail Finance Committee of the National Manufactured Housing Finance Association (NMHFA). Accompanying me is Alan Schneeberg, with Witkowski, Weiner, McCaffrey and Brodsky, P.C., the NMHFA's Washington, D.C. Counsel.

The NMHFA is a national association of lenders who finance the purchase of manufactured homes, primarily through the use of federal housing loan programs such as the Veterans Administration (VA) manufactured home loan guaranty program. We are pleased to have the opportunity today to testify on the VA program.

The VA manufactured home loan program is authorized by section 1819 of Title 38 of the United States Code. The NMHFA believes that the manufactured home loan guaranty program is excellent and that the VA has operated the program well. Since its creation by the Veterans' Housing Act of 1970, Public Law 91-506, the program has assisted over 67,000 veterans in purchasing manufactured homes. Through the VA manufactured home program, an eligible veteran can obtain financing for a new or existing manufactured home, or a manufactured home and lot, with no down payment, and with a loan having a maximum term that may range from 20 to 25 years. With today's

site-built housing prices beyond the reach of many veterans, the VA manufactured home loan guaranty program offers affordable home ownership to veterans who might otherwise be limited to substandard housing or rental housing.

Legislation, initiated in this Subcommittee, is pending in the Congress which amends section 1810 of Title 38, and which would give veterans a choice to use their entitlement to finance a manufactured home real estate purchase on the same terms as the VA single-family loan guaranty program. Section 1810 financing would be available where the manufactured home is permanently affixed to land, financed with a real property mortgage loan and considered real property in the state where it is located (H.R. 2948 and S. 1388). The NMHFA appreciates the support and cooperation we received from this Subcommittee and its excellent staff in incorporating our views on this important legislation. We look forward to working with the VA in developing the implementing rules once H.R. 2948 is signed into law.

Restoration of Revolving Fund

Recently, the VA loan guaranty revolving fund, which includes both the individual single-family home mortgage loan program and the manufactured home loan guaranty program, has

suffered a significant depletion, notwithstanding the increasing volume of VA loans. This has been the result of a greater number of defaults and larger claims.

The rise in defaults and foreclosures is the result of the greater number of loans written during this period, as well as the record high unemployment and home loan interest rates which have characterized the recent economic recession. Owners of manufactured homes generally have a lower household income than owners of conventional single-family homes. They are, therefore, more susceptible to the effects of the recession than conventional home owners, both in terms of unemployment and higher home credit costs. In 1981, median household income for owner-occupants of new manufactured homes was $12,800, compared with the median income for all households of $19,074. Average household income for veterans using the VA manufactured home program in 1982 was 37 percent less than the average income for veteran home owners using the regular single-family VA program.

It is important to note, however, that despite the increase in defaults, NMHFA member lenders are doing everything in their power to prevent foreclosures. Lenders have been exercising voluntary forebearance and working with veterans who are delinquent in their manufactured home loans in order to allow them to keep their homes. We are optimistic that, as the

economy continues to ease out the recession and interest rates moderate, the rate of defaults and foreclosures will decline as will the resulting drain on the revolving fund.

To deal with the more immediate need of replenishing the revolving fund, we recommend that the new VA user fee imposed upon veterans be earmarked by the Congress for use in operating the loan guaranty program, rather than be remitted to the Treasury as general revenues. This redesignation could obviate the need for a new appropriation and have the salutory effect of sustaining the VA program with its own revenues. However, our recommendation should not be interpreted as endorsing the user fee or its continuation beyond the scheduled expiration date in 1985. On the contrary, the user fee has placed an added burden on the veteran at a particularly difficult time in our economy by increasing the cost of VA-backed housing credit.

Program Recommendations

Since the beginning of the VA program, the VA and members of the manufactured home lending industry have cooperated on many occasions in order to make the manufactured home program as successful as possible. Cooperation is extremely important to ensure that this program works successfully, and we trust that the VA and the industry members will continue to work together in the future.

In the aggregate, the experience of our members in working with the VA manufactured home program has been extremely positive. We find the attitude and cooperation of the VA staff at all levels to be excellent. The flexible attitude of the VA has enabled the program to change, within statutory parameters, in response to the needs of those veterans purchasing manufactured homes and using the entitlement benefit. We do, however, have a few specific recommendations for improving the operation of the program so that better service to veterans can be provided.

Manufactured Home Loan Refinancing

Existing VA legislation permits a veteran who has a VA-guaranteed manufactured home loan to take advantage of reduced interest rates by refinancing his or her home with a new VA-guaranteed loan at a lower rate. By regulation, the refinancing process is facilitated for veterans with single-family home mortgage loans guaranteed under the section 1810 program. That program permits the VA-approved lender to refinance the loan automatically, without prior approval from the VA. However, VA regulations do not permit automatic processing of VA refinancings for veterans with manufactured home loans guaranteed under the section 1819 program. We, therefore, urge that the expedited treatment offered to veterans who refinance section 1810 single-family home loans

also be afforded to veterans who refinance section 1819 manufactured home loans. Since this change is permitted by statute, only regulatory action by the VA would be necessary.

Interest on Claims

The VA recently proposed to change its interest rate payment policy on guaranty claims for manufactured home loans. The NMHFA worked closely with the VA on this proposal in order to make the rate of interest paid on such claims more equitable, and we are pleased with the proposal.

The proposed VA rule would change the maximum interest rate on claims recoverable by a lender from the present, fixed, six percent ceiling, to a floating rate of 4.75 percent below the contract rate on the VA loan. A floating rate would more accurately reflect the market costs of credit for lenders while the claim is prepared and processed than the present six percent fixed rate. The costs of providing such credit for veterans wishing to purchase a manufactured home through the use of their VA entitlement would therefore be contained.

As we have advised the VA, although the proposed interest rate change is a welcome reform, the NMHFA believes that further improvements in the VA claims payment practices are warranted. Specifically, we recommend that the period over

which interest payments accrue should also be revised. Under present procedure, VA pays interest at the above-stated claims rate for the period beginning on the date of the foreclosure decree or repossession, and ending 60 days thereafter, or on the date of resale of the home, whichever is earlier. In order to compensate the lender adequately for the time involved in repossessing the home, repairing the home, selling the home at a fair rather than "distress" price, and the time it takes to prepare and process the claim, we have proposed that this period be lengthened to the date of VA certification of the claim for payment.

These additional changes in the VA manufactured home loan claims payment practices will further assist in containing the lender's cost of doing business under the program, thereby making credit more widely available to veterans.

This concludes our comments. We are grateful to have had this opportunity to testify and hope that our recommendations will be considered in making constructive changes for the benefit of veterans who use the VA manufactured home loan program. We would be pleased to provide for the record any further information with respect to our testimony. In the future, the NMHFA looks forward to working with the Subcommittee and its fine staff on matters regarding manufactured home financing for veterans.

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November 1, 1983

Honorable Richard C. Shelby, Chairman
Subcommittee on Housing and
Memorial Affairs
Veterans Affairs Committee
337 CHOB
Washington, D.C. 20515

ATTN: Gloria Royce

Dear Mr. Shelby:

This is to respond for the record to the questions directed by the Subcommittee to Dan Winters, representing the National Manufactured Housing Finance Association (NMHFA), during the October 27, 1983 oversight hearing on Veterans Administration housing programs. We are counsel to the NMHFA in Washington, D.C.

1. Mr. Shelby requested the percentage of loans originated under the VA manufactured home loan program compared to the total number of VA guaranteed home loans. Based upon our conversations with the VA, we understand that, in 1982, the VA guaranteed 10,397 loans under the manufactured home program and 92,957 loans under the regular single-family program. Thus, manufactured housing loans comprised 11.18% of the total VA home loan guaranty volume for 1982.

2. Mr. Sundquist requested information on the total number of manufacturers producing manufactured homes in the nation. According to the National Conference of State Building Codes and Standards, there are presently 182 separate manufacturers of manufactured homes operating out of 396 factories nationally.

3. Finally, with regard to automatic processing for VA manufactured home loan refinancings, we are pleased to report that, consistent with the Subcommittee's inquiries in this area, NMHFA has initiated discussions on this issue with the VA. As noted in our written statement, express statutory authority providing automatic processing for refinancings exists

under current legislation. 38 U.S.C. §1819(a)(1)(f) By regulation, however, only single-family loans can be refinanced in this manner. 36 C.F.R. 4223(A)(1). Equivalent treatment for manufactured home loan refinancings with single-family refinancings can be accomplished through administrative action by the VA. We will keep the Subcommittee advised of our progress in obtaining such action.

On behalf of the NMHFA, we greatly appreciate your interest in the VA manufactured housing programs.

Sincerely,

Alan Schneeberg

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

PHILIP R. MAYO, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

OVERSIGHT OF THE VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM

WASHINGTON, D. C. OCTOBER 27, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 1.96 million members of the Veterans of Foreign Wars of the United States, I appreciate the opportunity to present our views concerning matters relating to the Veterans Administration Home Loan Guaranty Program.

Mr. Chairman, we would like to begin by commending you and the members of this Subcommittee for your continuing interest in keeping the veterans housing program as realistic and workable a program as it has been over the years. This interest is not only demonstrated by the holding of today's proceedings, but also by the Subcommittee's insightful consideration and passage of H.R. 2948, the "Veterans Housing Benefits Amendments of 1983." Unfortunately, this measure has languished so long on the other side that the possibility of funding for mortgage relief for veterans whose loans are in default under its provisions is not considered likely at this time.

In your letter of invitation, Mr. Chairman, you indicate that it is becoming apparent that the VA may soon find it necessary to request funding to replenish the Loan Guaranty Revolving Fund, due, primarily, to the rapid depletion of the Fund's resources brought about by high foreclosure rates over the last several years. You also

observed that vendee loan sales were becoming increasingly necessary in order for the VA to meet future program obligations. You further noted your intention to inquire into the VA's current caseload and staff ability to manage such on a timely basis.

In responding to these concerns, it is our view that your analysis is correct. For instance, information published in the Veterans Administration "Summary of VA Property Management Activities - Guaranteed and Direct Loans" indicates that between October 1981 and June of this year, the inventory of properties on hand (properties being managed by the VA for resale, etc.) increased by nearly 100%. Over the same period, it is also clear that the caseload connected with that and other activity rose substantially. Additionally, the VA observed before this Subcommittee on April 21 of this year that "...the Loan Guaranty Revolving Fund has been significantly depleted during the past 3 fiscal years. The unobligated balance in the fund has decreased from $285 million on September 30, 1980, to $237 million on September 30, 1981, to $74 million as of September 30, 1982. To return capital to this fund, we sold $373 million in loans in Fiscal Year 1982, and we have sold $642 million in loans to date in Fiscal Year 1983. However, we estimate the Loan Guaranty Revolving Fund will have a balance of $100 million or less at the end of this fiscal year."

Further, in its report to the Budget Committee dated March 7, 1983, the Veterans Affairs Committee recognized that the "... Veterans Administration must dispose of properties at a greater rate than they are acquired in order to reduce the inventory of acquired properties in 1984," and that "... an aggressive program of supplemental serving for veterans in default will be necessary to prevent excessive claims." We believe that continuing high interest rates and a softer than expected market in resale homes, as well as uncertainties in employment, have served to keep the VA's inventory of properties high and have forced the agency to sell loans in an adverse market. We believe that this has caused the interests of both the agency and the veteran to be ill-served -- the agency by lower sales prices and the veteran by the necessity to liquidate more frequent and larger deficiency balances. And, as indicated above, this

Subcommittee's effort to aggressively address default activity under the provisions of H.R. 2948 has not been acted on by the Senate. We have asked the Senate Committee on Veterans Affairs to advance this or similar legislation.

Again, Mr. Chairman, we register our displeasure that the provisions of Public Law 97-253, the "Omnibus Budget Reconciliation Act of 1982," make necessary the return of funds raised as a result of the imposition of a user fee on new VA loans to the general treasury rather than to the Veterans Administration. While we recognize that these are "cost-savings" funds and their return to the VA would require the imposition of similar cost-savings in other on-going VA programs, it is ironic to us that funds raised specifically from the veteran population cannot be used for the benefit of veterans -- veterans helping veterans, if you will -- particularly when it is obvious to us that the current problems being experienced in the Direct and Loan revolving funds could at least be partially relieved thereby. Instead, we are faced with the prospect of seeking increased appropriations from the Congress in order to resolve the same difficulties.

With respect to staffing levels in the Loan Guaranty Service, the substantially increased workload therein, in our view, has been dealt with well considering its modest increase in personnel. It is our understanding that a number of productivity improving procedures, which we are certain the VA will amply describe today, have been implemented to increase processing efficiency. And, although we understand that as great an increase in personnel as 300 has been suggested by some, we recommend particular attention be paid to this factor by the Subcommittee and the VA in order to assure that all interests are properly protected and served.

In addition, we are certain that the Subcommittee is aware of the Committee on Ways and Means consideration of H.R. 1176, the "Housing Finance Opportunity Act of 1983." This measure would amend the Internal Revenue Code whereby the issuance of tax exempt mortgage bonds by states would be authorized subsequent to December 31, 1983. A number of states have and are planning to float bond issues for this purpose, and veterans residing in those states have definitely benefitted from the low-rate mortgage loans re-

sulting from such ventures. We understand and appreciate the fact that the Ways and Means Committee is seeking means whereby current budget deficits may be reduced; however, we also recognize that low-interest loans may be the only way that many veterans, particularly Vietnam veterans, can reasonably afford the dream of homeownership -- either in purchasing a home or being able to keep one during times of recession. Smaller monthly mortgage payments translate into a greater ability to service such on the part of veterans in our view. We hope the Congress agrees with the Ways and Means Committee in passing a measure retaining funding for veterans home loans.

Mr. Chairman, we would also bring to the Subcommittee's attention language adopted in H.R. 1, the "Housing and Urban Rural Recovery Act of 1983," during the consideration of that measure by the House of Representatives. Known as the Bartlett Amendment, the language provides that Federal Housing Administration (FHA) home loan rates would become a locally negotiated rate rather than a nationally set rate, as is current practice. Similar legislative language is currently being contemplated by the Senate as well. As you know, provisions of Title 38, USC stipulate that the Administrator, in determining VA mortgage loan rates, shall consult with the Secretary of Housing and Urban Development (HUD). Should the Bartlett Amendment language advance into law, we believe VA guaranteed loans may not remain a viable means of home financing: the Administrator cannot set rates in consultation with the HUD Secretary under the provisions of the Bartlett Amendment other than by acceeding to locally set rates. Our interpretation of the language in section 1803 of Title 38 USC does not envision such; it implies a "national" rate.

In considering the current status and functioning of the Veterans Home Loan Guaranty Program, the delegates to our most recent National Convention adopted several resolutions. Resolution No. 770 entitled "Veterans Administration Home Loans," and Resolution No. 771, entitled "Buyer Brokering" are appended to our testimony, and we urge your careful consideration of the recommendations therein.

In conclusion, Mr. Chairman, we believe the VA loan guaranty program has and continues to serve veterans well. At the same time, timely action is needed in order to keep it a viable veterans program. This Subcommittee and the Congress have responded positively to such challenges in the past, and we are confident they will again. For this concern and action we express our sincere gratitude.

This concludes my remarks, and I would be happy to respond to questions you may have at this time.

Resolution No. 770

VETERANS ADMINISTRATION HOME LOANS

WHEREAS, legislation is advancing in the Congress whereby Federal Housing Administration (FHA) loans will bear a local buyer/lender negotiated rate of interest instead of a nationally fixed rate; and

WHEREAS, the passage of such legislation would serve to make Veterans Administration (VA) fixed rate home loans substantially less attractive to sellers and lenders; and

WHEREAS, VA home loans are a substantive part of the benefits "package" afforded those who have honorably served their nation in the Armed Forces; and

WHEREAS, the maintenance of a competitive and viable VA home loan program is very necessary in order for veterans to continue to receive meaningful benefits in recognition of their service; and

WHEREAS, changes in the VA home loan program such as granting the VA Administrator the ability to (a) independently set VA home loan rates; (b) exercise greater latitude in the VA home loan guarantee percentage/maximum amount; (c) authorize veterans the option to engage the service of a buyer broker; (d) authorize the subsidization of VA home loan interest rates, and other program improvements, may strengthen that program; now, therefore

BE IT RESOLVED, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and passage of legislation that will serve to maintain the VA home loan program as the most viable and desirable means of home financing available.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983.

Resolution No. 770

Resolution No. 771

BUYER BROKERING

WHEREAS, most homebuyers are not aware that realtors/brokers are representing sellers; and

WHEREAS, this situation exists as a result of homesellers paying the commissions of realtors/brokers; and

WHEREAS, an inherent obligation thereby exists for the realtor/broker to obtain the best price and terms of sale for the seller; and

WHEREAS, the existence of this arrangement may be in direct conflict with the interests of buyers; and

WHEREAS, the option to hire a realtor/broker to represent the interests of a veteran in a real estate transaction may yield a more suitable arrangement for the veteran buyer; and

WHEREAS, buyer brokering is currently an established option in conventional and Federal Housing Administration (FHA) loans; and

WHEREAS, the Veterans Administration will not currently guarantee a loan where a buyer pays for a broker's servies; now, therefore

BE IT RESOLVED, by the 84th National Convention of the Veterans of Foreign Wars of the United States, that the necessary legislative/administrative action be taken to allow veterans to hire a realtor/broker and that the fee for such services be included in the financed portion of the loan as is currently the case with realtor/broker commissions.

Adopted by the 84th National Convention of the Veterans of Foreign Wars of the United States held in New Orleans, Louisiana, August 12-19, 1983.

STATEMENT OF
STEPHEN L. EDMISTON
DEPUTY NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
OCTOBER 27, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the 809,000 members of the Disabled American Veterans, may I say that we appreciate the invitation to appear here today at this oversight hearing to present our views on the VA Home Loan Guaranty Program.

Before proceeding with my statement, Mr. Chairman, we wish to commend you for holding this hearing and for keeping a watchful eye on the effectiveness of this important program. Additionally, we wish to further compliment you and the members of the Subcommittee for your continual efforts to improve all veterans' housing benefits.

VA Loan Guaranty Program

As you know, Mr. Chairman, the purpose of the VA Loan Guaranty Program is to assist eligible veterans in obtaining mortgage credit for the purchase of existing or manufactured homes, and construction of new homes to be occupied by veterans and their families.

There is no doubt that the VA Home Loan Guaranty Program has been a good investment in America. It has helped millions of veterans and their families become homeowners -- thereby adding stability and expanding the tax base of nearly every community in our country. Since the program's inception on June 22, 1944, veterans have obtained over 11 million home loans.

Veterans use of the VA Home Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets.

As we all know, in the past few years, the housing and financial markets have experienced shortages of mortgage funds, increased home prices and ownership costs, as well as the highest interest rates in history. Additionally, this same period has been marked by unprecedented rates of high unemployment.

Veterans, like all Americans, have been adversely impacted by these economic conditions. As a result, there has been a dramatic decline in the number of home loans guaranteed by the VA (Fiscal Year 1982 was the lowest since 1944), accompanied by an equally heavy increase in home loan defaults.

Accordingly, due to high foreclosure rates experienced in this program in recent years, the VA's Loan Guaranty Revolving Fund has been depleted to the point that vendee loan sales are continually necessary to finance future program obligations.

It appears, as a result of this economic dilemma, that the Veterans Administration will more than likely be required to seek additional appropriations to replenish the Loan Guaranty Revolving Fund.

Mr. Chairman, the DAV supports providing additional appropriations to insure the integrity and financial stability of the VA's Home Loan Guaranty Program.

In this regard, Mr. Chairman, the DAV wishes to applaud the effort taken by you and the members of this Subcommittee earlier this year when you favorably reported legislation (H.R. 2948) that would provide mortgage assistance to veterans with loans guaranteed by the VA in order to avoid foreclosure. As you know, the legislation was overwhelmingly adopted by the full House on May 24, 1983.

Quite frankly, in light of our nation's troubled economic climate and accompanying high rate of unemployment, this legislation would, in our view, provide veterans (with VA guaranteed loans) who are faced with foreclosure an extra measure of security for themselves and their families, as well as protect the solvency of the VA's Loan Guaranty Revolving Fund.

While discussing the VA's Home Loan Guaranty Program, Mr. Chairman, we feel compelled to bring to the attention of the Subcommittee our concern regarding actions taken in the House of

Representatives a few months ago that could adversely impact on home buying veterans who wish to use their VA home loan eligibility.

Specifically, on July 13, 1983, the House adopted an amendment to H.R. 1 -- the Housing and Urban Rural Recovery Act of 1983 -- which would allow FHA mortgage interest rates to float according to the market rate, instead of a rate fixed by the Secretary of Housing and Urban Development.

Our concern is, Mr. Chairman, should this provision of H.R. 1 be enacted into law what impact, if any, will it have upon the VA Loan Guaranty Program?

Under current law, Section 1803(c)(1), Title 38, United States Code, states, in part "...the Administrator shall consult with the Secretary of Housing and Urban Development regarding the rate of interest the Secretary considers necessary to meet the mortgage market for home loans insured under section 203(b) of the National Housing Act (12 U.S.C. 1709(b)), and, to the maximum extent practicable, carry out a coordinated policy on interest rates on loans insured under such section of 203(b) and on loans guaranteed or insured under this chapter." (underscoring added)

This provision of Title 38, United States Code, in practice, has amounted to the VA simultaneously setting its interest rate at the same level as the FHA rate.

The amendment adopted to H.R. 1 did not amend this previously mentioned Section of Title 38, United States Code and, accordingly, we question whether or not the Administrator would be required to conform to the "Floated" FHA rate, should H.R. 1 be enacted into law.

Could, for example, the Administrator determine that it is not "to the maximum extent practicable" for him to set interest rates equal to FHA?

As you know, Mr. Chairman, the VA Loan Guaranty Program was designed to provide veteran home buyers an opportunity to own a home that was otherwise unavailable -- by extending a mortgage guarantee to the lender on a percent of the loan and setting interest rates below the conventional market rate.

It would appear to us that if the provision adopted to H.R. 1 -- to float FHA mortgage interest rates -- were to apply to the VA Home Loan Program, then, in effect, the Congress has acted contrary to the original intent of the program without the consultation and review of this Subcommittee.

Additionally, if this proposal does not apply to the VA loan program, veterans will still be adversely impacted as lenders and sellers will no longer find the VA loan program attractive.

In light of this situation, Mr. Chairman, we strongly suggest that the Subcommittee give serious consideration to legislation that would clarify the VA Administrator's authority to set the rate of interest for VA guaranteed home loans and, increase the guaranty to 60% of the loan or $40,000, whichever is the lesser. Such an approach will, in our view, insure that the VA program remains competitive with the new FHA and commercial market.

Specially Adapted Housing and Housing Assistance Programs

As you are aware, Mr. Chairman, existing law (38 U.S.C. 801(a)) authorizes monetary assistance to severely disabled veterans for purposes of adapting homes or acquiring homes with special facilities that are made necessary because of the nature of their service-connected disabilities. Veterans are eligible for this assistance if they have a permanent and total service-connected disability that has resulted in:

1. The loss, or loss of use, of both lower extremities such as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair, or;

2. Blindness in both eyes, having only light perception, plus the loss or loss of use, of one lower extremity, or;

3. The loss, or loss of use, of one lower extremity together with (a) residuals of organic disease or injury or, (b) loss, or loss of use, of one upper extremity, which so affect the function of balance or propulsion as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair.

VA specially adapted housing assistance, as outlined in Section 802(a) of Title 38, United States Code, is intended to assist eligible veterans in acquiring suitable housing by providing 50% of the cost of such housing and necessary land, or 50% of the cost of suitably remodeling an existing home, plus the smaller of the following sums: half the cost of such home and necessary land or the full amount of the unpaid balance, if any. In no event may the current amount of monetary assistance provided exceed $32,500.

The original law (P.L. 80-702), enacted in 1948, initially provided grants of up to $10,000 for "wheelchair homes". At that time, the average cost of construction for a new single family residence was $7,800. Obviously, housing costs have risen drastically since then, although the maximum amount of the grant has been increased five times: First to $12,500 by Public Law 91-22, second to $17,500 by Public Law 92-341, third to $25,000 by Public Law 93-569, fourth to $30,000 by Public Law 95-476 and finally to $32,500 by Public Law 97-66.

According to VA statistics 487 eligible veterans were approved for specially adapted housing grants during calendar year 1982.

Similarly, Section 801(b) of Title 38, United States Code provides a special program of housing assistance for certain blinded service-connected veterans and veterans who suffer the service-connected loss or loss of use of both upper extremities due to the difficulties they encounter daily in functioning within their home.

First established by Public Law 96-385, Section 802(b) permits the VA to pay the actual cost for necessary adaptations needed by the eligible veteran. Such assistance may not exceed $5,000.

In considering the increased cost of new home construction and remodeling adaptations in recent years, and the intended purpose of VA's specially adapted housing assistance programs as outlined in Sections 801 and 802 of Title 38, United States Code, the DAV believes that the amount of these grants should be increased to at least $35,000 (for Special Adapted Housing) or an amount equal to approximately one-half of the average cost of such housing in Fiscal Year 1983 and to $7,500 for the special housing assistance program.

Therefore, Mr. Chairman, the DAV strongly urges the Subcommittee to favorably consider legislation (H.R. 467) to increase these grant programs for certain eligible seriously disabled service-connected veterans.

That concludes my statement, Mr. Chairman. Again, I wish to thank you and the members of the Subcommittee for inviting us to appear here today to express our views on these important subjects.

The American Legion
★ WASHINGTON OFFICE ★ 1608 "K" STREET, N.W. ★ WASHINGTON, D.C. 20006 ★
(202) 861-2700 ★

October 24, 1983

Honorable Richard C. Shelby, Chairman
Subcommittee on Housing & Memorial Affairs
House Veterans Affairs Committee
337 Cannon House Office Building
Washington, DC 20515

Dear Mr. Chairman:

The American Legion would like to bring to your attention a disturbing problem with the Veterans Administration's (VA) veterans home loan program which requires the attention of the Subcommittee. As you know, the country is just now beginning to emerge from a recession of several years standing. As a result of the recession the number of foreclosures on VA guaranteed home loans has seen a dramatic increase. In fact, the foreclosure rate has increased by approximately 40 percent a year since FY 81. Likewise, the recession has prevented the VA from liquidating properties acquired through foreclosure and from selling loans that it has guaranteed.

The increased foreclosure rate, a growing surplus of properties acquired through foreclosure and revenues lost through reduced guaranteed home loan sales have combined to create a negative cash flow in the VA's Loan Guaranty Revolving Fund. If this trend continues it will be necessary for Congress to appropriate sufficient funds to keep the Loan Guaranty Revolving Fund solvent.

We recognize that the House Committee on Veterans Affairs has had the foresight to approve legislation to assist veterans faced with foreclosure. But the current condition of the revolving fund points up the absolute need to convince the Senate to act on VA home loan foreclosure relief because of its cost effectiveness.

We wish to point out that the VA home loan user fee generated $85 million in revenues during the last fiscal year and that the Subcommittee should seriously consider returning the user fee to the revolving fund instead of the current practice of funneling the user fee back into general revenues. The return of the user fee to the home loan revolving fund would reduce the likelihood that an appropriation would be required to maintain the fund's solvency.

As always, Mr. Chairman, your regards for the views of The American Legion are greatly appreciated.

Sincerely,

E. Philip Riggin

E. Philip Riggin, Director
National Legislative Commission

cc: All Subcommittee Members

Federal National Mortgage Association

3900 Wisconsin Avenue, NW, Washington, DC 20016
202 537 6710

Robert J. Mo[illegible]
President and
Chief Operating Officer

November 28, 1983

The Honorable Richard Shelby
Chairman
Subcommittee on Housing and
Memorial Affairs
335 Cannon House Office Building
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This responds to your recent letter regarding the oversight hearing held on October 27 on the Veterans Administration home loan guaranty program. We request that the following comments be included in the record of the hearing.

As a portfolio investor owning $11.3 billion in VA guaranteed mortgages, FNMA is very interested in the soundness of the Loan Guaranty Revolving Fund. Claims are paid from this fund to investors when mortgages go into default and foreclosure becomes necessary. Understandably, investors become concerned when the fund comes close to being depleted.

FNMA and other secondary market investors must take careful note of the testimony given to your Subcommittee on October 27 by Mr. Robert M. O'Toole, Director of the VA Loan Guaranty Service. Mr. O'Toole stated that the balance in the Loan Guaranty Revolving Fund as of September 30, 1983, was $120 million and that it was necessary to transfer $300 million from the Direct Loan Revolving Fund to the Loan Guaranty Revolving Fund during Fiscal Year 1983. To hear Mr. O'Toole say that the Loan Guaranty Revolving Fund "remains seriously depleted" is worrisome.

During the recent recession, FNMA encouraged all approved lenders servicing mortgages for us to make every effort to avoid foreclosures. We have stressed that foreclosure is to be an action of last resort. We are pleased to report that during the past twelve-month period ending September 30, 1983, FNMA claims on the VA Loan Guaranty Revolving Fund have remained at a relatively stable level. Payments received by FNMA from VA during this period amounted to about $97.9 million. We do not expect the level of claims to increase during the next twelve months, but even this modest level would substantially deplete the $120 million presently in the fund.

Despite optimistic views about the national economy for the next year, FNMA and other secondary market investors must continue to be concerned about a VA Loan Guaranty Revolving Fund that appears to be running out of money. While we expect that the Federal government will fully meet its contractual obligations and pay all claims as required, we recognize that a depleted fund could mean costly delays in the payment of claims. These delays could come while VA waits for funds to be appropriated by the Congress or sells off assets to replenish the fund. These solutions are not wholly satisfying because investors know that definite limits exist as to the amount of funds which may be raised from the sale of assets and that the appropriations process is indefinite and frequently takes a very long time.

The solvency of the fund must be assured for now and the future so that investors can have the confidence that claims made on the fund will be paid fully and promptly. We recommend that the Subcommittee give serious consideration to the suggestion made by the Mortgage Bankers Association of America and others that the funding fee charged veteran borrowers should be allocated to the VA for use in maintaining the revolving fund. Reasonably, the VA home loan guaranty program should be a self-generating, self-paying program rather than one depending on federal appropriations to assure its viability. This element of soundness is essential to assure that investors continue to consider VA mortgages to be attactive investments. With such confidence, investor dollars should continue to be in plentiful supply so that veterans will enjoy the benefits which come from the no downpayment VA home loan guaranty program.

Thank you for the opportunity to submit these comments. If we can be of any assistance to the Subcommittee in its deliberations please contact me or Dale Riordan, Senior Vice President for Government Relations, at 537-6740.

Sincerely,

RJM/mdk

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS' AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

on

OVERSIGHT OF THE VA LOAN GUARANTY PROGRAM

OCTOBER 27, 1983

Mr. Chairman and Members of the Committee:

My name is Harry Pryde and I am a home builder and developer from Seattle, Washington. I am submitting this statement on behalf of the more than 115,000 members of the National Association of Home Builders (NAHB), who employ over 3 million workers. NAHB is a trade association of the nation's homebuilding industry, of which I am President. Approximately 30% of our builder members are involved in building VA housing and that number is steadily increasing. I am pleased to present our views on the VA Loan Guaranty Program.

VA HOME LOAN GUARANTY PROGRAM

First, I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have given almost four generations of veterans and their families the opportunity not only to obtain property and homeownership but to put down roots and establish community ties.

Participation in VA housing programs has been substantial with loans guaranteed by the VA in the 1970's increasing markedly over that of the decade of the 1960's. The number of loans guaranteed per year in the 1960's averaged about 120,000 while during the 1970's the number rose to about 320,000 per year. Since the inception of the program, the VA has guaranteed over 11 million loans with a value of over $200 billion.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB supports the VA Home Loan Guaranty Program and belives the VA to be one of the best federal agencies in terms of service to the consumer and to the home builder.

LOAN GUARANTY REVOLVING FUND

Mr. Chairman, due to the economic recession, the VA for the first time may have to ask Congress for an appropriation to replenish the Loan Guaranty Revolving Fund. This fund has serviced the veteran well in providing the necessary monies to keep the home loan program solvent.

It has been a self-sustaining fund which in conjunction with the home loan program serviced the veteran without additional appropriations all these years. But due to the length of the economic downturn, high interest rates, high deficits and the low turnover of homes acquired by the VA through foreclosure in the northeast and other areas around the country, the fund will soon be depleted.

The VA Home Loan Guaranty Program is an entitlement passed by Congress in 1944 to enable veterans to purchase a home. Many of these veterans would not have been able to purchase a home without

the no downpayment feature of this program. It is of particular importance to first-time homebuyers that this program be continued. They do not have the necessary capital to initially enter the home-buying market.

HOME LOAN FEE

Because of the problem in the revolving fund, it is of major concern to us that the one-half percent fee initiated by Congress in the Omnibus Reconciliation Act of 1982 is going into Treasury coffers rather than into the Loan Guaranty Revolving Fund. The fee is drawing approximately $80 million a year and would certainly help in defraying any deficits in the revolving fund that the VA is anticipating in FY'84 and beyond. We strongly believe that the monies collected from this fee should revert into the Loan Guaranty Revolving Fund to assist in maintaining the solvency of the program, as originally recommended by the VA.

While NAHB is opposed to any fee on VA home loans due to the entitlement nature of the program, at a minimum the fee should go directly into the Loan Guaranty Revolving Fund to offset losses.

NEGOTIATED INTEREST RATE

I would also like to take this opportunity to comment on NAHB's policy on negotiated interest rates. Until the negotiated rate proves to be an effective, viable alternative to the administrative set rate, NAHB strongly supports continuation of the current rate setting authority determined by FHA and VA.

We feel the administrative determined rate has well served both our industry and the homebuying public over the last 40 years. In addition, in a decreasing interest rate market the lowering of the FHA/VA ceiling has effectively assisted in further reducing conventional interest rates.

REGULATORY AND PROCESSING CHANGES

We also appreciate the recent decisions made by the VA to alleviate some of the regulatory requirements under the home loan program. It was announced at our Fall Board of Directors meeting in September that an A-95 review would no longer be required at the national level and that changes were being made in subdivision processing to rely on local codes.

NAHB has long been in the forefront of recommending a lessening of federal regulatory requirements and are pleased with the recent changes being made in the VA Home Loan Guaranty Program.

CONCLUSION

In closing, I would like to emphasize that it is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

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